

# AUDIT COMMITTEE

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Tuesday, 20 September 2016 at 7.00 p.m.

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

## SUPPLEMENTAL AGENDA

**This meeting is open to the public to attend.**

**Contact for further enquiries:**

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For further information including the Membership of this body and public information, see the main agenda.

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<p><i>Non-Executive Report of the:</i> <b>Audit Committee</b> <i>20<sup>th</sup> September 2016</i></p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> <i>Zena Cooke - Corporate Director - Resources</i></p>	<p><b>Classification:</b> <i>Unrestricted</i></p>
<p><b>Quarterly Assurance Report</b></p>	

<b>Originating Officer(s)</b>	<i>Minesh Jani and Bharat Mehta</i>
<b>Wards affected</b>	<i>All wards</i>

## REASON FOR URGENCY

The reason the report was unavailable for public inspection within the standard timescales set out in the Authority’s constitution because the initial draft report needed to be updated to reflected management comments and audit findings following the preparation of the initial draft. It is important the audit committee has an up to date understanding of the internal controls environment and the planned management action to allow it to appraise the Council’s control environment.

The Chair of the Committee is satisfied that the report cannot be deferred to the next meeting on the 8<sup>th</sup> November 2016 as this would mean that that Committee will not be able to approve the draft Annual Governance Statement to meet the statutory deadline of 30 September. The findings arising from the quarterly assurance report and the annual risk report are also considered alongside the Annual Governance Statement.

## 1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period June 2016 to August 2016.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

## 2. RECOMMENDATION

- 2.1. Members are asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

### 3. Background

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

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

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

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

### 4. Overall Audit Opinion

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

#### 4.2. Direction of Travel

Each audit summary presented at Appendix 2, shows the Direction of Travel for that audit. Each Direction of Travel is defined in the following Table.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
	Not previously visited by Internal Audit.

#### 5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in June 2016, twenty seven final reports have been issued. The findings of these audits are presented as follows:
- Chart 1 below summarises the assurance rating assigned by the level of significance of each report.
  - Appendix 1 provides a list of the audits organised by assurance rating and significance.
  - Appendix 2 (A) provides a brief summary of each audit.
  - Appendix 2 (B) provides a summary of our review of the Award of Concession Contracts for Ice Cream Pitches.
  - Appendix 2 (C) provides a summary of the Youth Services review.
- 5.2. **Members are invited to consider the following:**
- The overall level of assurance provided (para 5.3-5.5).
  - The findings of individual reports. Members may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.
- 5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2005 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

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

**Chart 1 Analysis of Assurance Levels**

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	17	2	-	19
	Moderate	-	6	2	-	8
	Low	-	-	-	-	-
<b>Total Numbers</b>		-	23	4	-	27
<b>Total %</b>		-	85%	15%	-	100%

- 5.4. From the table above it can be seen that of the nineteen finalised audits which focused on high risk or high value areas; seventeen were assigned Substantial Assurance and two were assigned Limited assurance. A further eight audits were of moderate significance and of these six were assigned Substantial Assurance and two were assigned Limited Assurance.
- 5.5. Overall, 85% of audits resulted in an adequate assurance (substantial or full). The remaining 15% of audits have an inadequate assurance rating (limited or nil).

## **6. Performance Indicators**

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

<b>Performance measure</b>	<b>Target</b>	<b>Actual</b>
Percentage of Audit Plan completed up to the quarter to June 2015	20%	20%
Percentage of Priority 1 Audit Recommendations implemented up to July 2016 by Auditees at six monthly follow up audit stage	100%	92% 11 out of 12
Percentage of Priority 2 Audit Recommendations implemented up to July 2016 by Auditees at six monthly follow up audit stage	95%	88% 15/17

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 92%, whereas the percentage of priority 2 recommendations was 88%. Details of priority 1 and priority 2 recommendations not implemented are set out in Appendix 3. Further to the usual escalation actions to the relevant Corporate Director and Service Heads, the Corporate Director - Resources has also been informed.

## **7. Comments of the Chief Finance Officers**

- 7.1. This is a quarterly noting report covering the period June 2016 to August 2016 highlighting findings arising from the work of the internal audit. There are no specific financial implications arising from the contents of this report.

## **8. Legal Comments**

- 8.1. The Council has a duty 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 by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 8.2. Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the

management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **9. One Tower Hamlets**

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

## **10. Best Value Implications**

- 10.1. This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

## **11. Risk Management Implications**

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

## **12. Sustainable Action for a Greener Environment (SAGE)**

- 12.1. There are no specific SAGE implications.

## **13. Crime and Disorder Reduction Implications**

- 13.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

**APPENDIX 1**

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
<b>LIMITED</b>			
	Extensive	Tower Hamlets Homes	THH Major Works – Systems Audit
	Extensive	Tower Hamlets Homes	Corporate Health and Safety
	Moderate	Children’s Services	Langdon Park Secondary School
	Moderate	Children’s Services	Stewart Headlam Primary School
<b>SUBSTANTIAL</b>	Extensive	Law, Probity and Governance	Registrar’s Office
	Extensive	Resources	Creditors
	Extensive	Resources	Pensions
	Extensive	Resources	Emergency Grants Funding
	Extensive	Resources	Bank Reconciliation Follow Up Audit
	Extensive	Resources	Enforcement and Tracing Service (Bailiffs) Contract Monitoring
	Extensive	Resources	Risk Management – Follow Up Audit
	Extensive	Resources	Back Office Revenue Collection and Processing
	Extensive	Resources	VAT Follow-Up
	Extensive	Tower Hamlets Homes	Right to Buy Follow Up Audit
	Extensive	Tower Hamlets Homes	Specialist Repairs Contracts
	Extensive	Tower Hamlets Homes	Major Works – Follow Up Audit
	Extensive	Children’s Services	Children Missing Education
	Extensive	Adults Services	Recovery of Unspent Funds From Individual Budgets for Adults Social Care
	Extensive	Corporate	Compliance with Transparency Code 2015
	Extensive	Corporate	Efficiency Savings
	Extensive	Development and Renewal	Risk Management – Follow Up Audit

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
	Moderate	Communities, Localities and Culture	Poplar Mortuary
	Moderate	Children's Services	St. Agnes Primary School
	Moderate	Children's Services	St Matthias Primary School
	Moderate	Children's Services	St Anne's Catholic Primary School
	Moderate	Children's Services	Marion Richardson Primary School
	Moderate	Children's Services	Thomas Buxton Primary School

**Summary of Audits Undertaken  
Limited Assurance**

**APPENDIX 2 (A)**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Major Works Systems Audit	June 2016	<p>Major works are usually large ‘one-off’ projects designed to extend and improve the life of a building, and could include the replacement of old windows or the replacement of a broken lift. They are typically payable under the terms of leaseholders’ agreements with the Council. Recent major works projects have included the Decent Homes Programme, and the ongoing Planned Maintenance Programme. Where works are carried out on buildings in which leaseholder properties are located, the leaseholders are liable for a proportion of the costs incurred. The objective of this audit was to provide assurance on the effectiveness and adequacy of the systems and controls THH has put in place for the management and control of Major Works.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>● In 16 of 20 cases tested, it was noted that a S20 notice was not issued to the leaseholder within 10 days of receiving the request for consultation from the THH Property Services team. In addition, it could not be confirmed that the S20 notices issued had been reviewed independently by a second officer before being sent to the leaseholder, as the notices are not currently signed and dated following review.</li> <li>● Consultation meetings had not always been held in a timely manner, following the issuing of the Section 20 notice.</li> <li>● Of the 13 relevant policies and procedures in place, 10 had not been reviewed within the past 12 months to confirm that they were up to date.</li> <li>● The teams have experienced issues around lack of co-ordination and information sharing, and this has created inefficiencies in working to achieve the major works targets.</li> <li>● The Resident Liaison Teams are currently not made aware of which flats in the blocks have not yet been surveyed by the contractor. In addition, the reports produced by the contractors do not indicate whether the residents</li> </ul>	Extensive	<p>Limited</p> <p style="text-align: center;">←</p>

		<p>require additional support, due to any disabilities or other needs.</p> <ul style="list-style-type: none"> <li>● A target timeframe has not been set for reviewing the leaseholder accounts regularly and in a timely manner, in order to identify the status of arrears. In eight cases out of 20 tested, it was found that leaseholder arrears for major works had not been appropriately actioned for recovery on a regular basis.</li> <li>● From a sample of 20 cases examined, it was found that none of the Understanding Residents Needs (MOLESD) forms tested were signed by the contractor responsible for visiting the property to identify any vulnerable residents.</li> <li>● In seven out of 20 cases tested, the leaseholder liability table was either not dated by the preparer, or was not signed and dated by the reviewer to confirm that a review had been completed.</li> <li>● As a result of testing a sample of 20 cases, severe delays were found in the implementation of the 2014/15 Major Works Programme such that, in all cases tested, the works were still not 100% complete and a practical completion certificate was yet to be issued.</li> <li>● In addition, due to the delays in the practical completion of the 2014/15 Major Works Programme, breakdown of final accounts could not be sent to the Quantity Surveyors Team Leader for the audits of these sample of blocks to take place. We were also informed that none of the blocks under the Major Works Programme 2014/15 have been audited as the breakdown of the final accounts have not been received.</li> </ul> <p>All findings and recommendations were agreed with the Head of Property Services and Acting Head of Leasehold Services and reported to the Chief Executive (THH).</p>		
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**Management Comments**

Revised consultation procedures are now in place.

Closer working with the leasehold teams and joint meetings occur each week to ensure information is shared and up to date. Meeting with both teams take place every Wednesday.

The internal program is now completed. Block surveys are now undertaken for external major works only and these are now achieved via consultant surveyors.

The process for identifying vulnerable residents for major works has been reviewed. We have identified the need to include housing staff to provide the information before surveys. Those residents identified as vulnerable and requiring works will be individually assessed by THH staff using the MOLESD form which is/will be signed and dated in line with the procedure. Contractors will not be required to undertake this task.

Final accounts are being actively managed through to completion. Future programs will be smaller in scale and will be more closely managed. Consultants have been instructed to ensure paperwork is properly signed and action reports on contractor progress are provided every month.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Corporate Health and Safety	July 2016	<p>Tower Hamlets Homes (THH) is responsible for ensuring a safe and healthy workplace in accordance with the Health and Safety at Work Act 1974. A new accident reporting system has recently been introduced, supplied by the firm Santia. Health and safety compliance is monitored via dashboard reporting and meetings of the bi-monthly Health and Safety Forum which is used to discuss and monitor actions from previous meetings, recent issues, and forward planning. This audit was undertaken as part of the agreed 2015/16 Audit Plan and the scope covered the administrative buildings and facilities, but did not cover the inspections or reviews of rented and leased streets, grounds or properties for which THH is responsible (as these are covered by other audits previously undertaken or planned for the future, in dedicated audits such as Gas Installation, Water Tests, Highways, and Grounds Maintenance).</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• A tracker spreadsheet is maintained to monitor the training courses that have been attended by all staff. However, the log is incomplete and it is therefore not possible to know whether all staff have attended the necessary training for their roles. In addition, it was not possible to ascertain whether the appropriate training has been undertaken by the appointed fire marshals and first aiders.</li> <li>• There is currently no schedule of inspections in place and therefore inspections may not be carried out at the required regular intervals which may lead to failure to identify and prevent incidents. In addition, there is not currently any formal procedure for raising health and safety issues and no log is currently kept of all issues that have been raised, thus providing no means of tracking progress or following up these issues.</li> <li>• It was seen that investigation forms had only been completed by managers for five of the 20 cases that were tested. It was confirmed that an accident log is currently kept. However, this is incomplete and is not up to date.</li> </ul>	Extensive	Limited  

		<ul style="list-style-type: none"> <li>It was confirmed that health and safety reports are only sent to the Board on an annual basis.</li> </ul> <p>All findings and recommendations were agreed with the Head of Health and Safety and Head of Property Services and reported to the Chief Executive (THH).</p>		
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### Management Comments

Work is ongoing to develop the incident reporting system. A meeting has been held with Santia, the organisation collecting incident information and compiling reports to ensure a full understanding of contract agreement and service delivery.

Incident investigations have been included in the dashboard presented to the Health and Safety Forum and EMT. Entries have been made on News & Views to raise awareness to the important of incident reporting.

A paper was presented to the Executive Management Team in July 2016 outlining a new governance structure and work is ongoing to develop the structure. The Health and Safety Forum will remain the strategic lead for THH and risk-based directorate meetings will be set up, commencing October 2016 to manage health and safety at a local level. Thereafter, the Health and Safety Forum will meet three monthly and all meetings will be co-ordinated to allow Directorates to report upwards.

Special groups are being set up to ensure high risk areas such as Fire Risk Assessment and Asbestos are managed effectively.

The new style dashboard has been drafted and presented to the August Health and Safety Forum and will, subsequently, be presented to the EMT. This provides a higher level report.

An Improvement Plan for THH Health and Safety will be developed in time for the October Forum

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Langdon Park Secondary School	June 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and Resources Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• From examination of a sample of five higher value purchases above £5,000, there was no evidence that alternative quotes had been obtained in two cases. In addition, there was no evidence that the basis of supplier selection had been documented.</li> <li>• The School was unable to confirm whether the leases examined were classed as 'Operating' or 'Finance' leases. Furthermore, there was no evidence that Local Authority advice was sought when entering into the contracts and leases.</li> <li>• For a sample of 10 purchases the following was identified: <ul style="list-style-type: none"> <li>- For three out of nine applicable transactions there was no evidence that the purchase order had been signed as authorised.</li> <li>- In four cases there was no evidence that a goods or services received check had been carried out.</li> <li>- In one instance it could not be confirmed that the invoice had been authorised for payment.</li> <li>- For two transactions, the same signature was evident on all the ordering and payment documentation. As such full segregation of duties could not be confirmed in these instances</li> </ul> </li> <li>• From a sample of 10 petty cash purchases the following was identified: <ul style="list-style-type: none"> <li>- in three instances the claimant had not signed the petty cash voucher.</li> <li>- in seven transactions the voucher amount approved was over £20 (suggested limit for budget holders).</li> </ul> </li> <li>• From a sample of six new starter files tested the following issues were noted: <ul style="list-style-type: none"> <li>- In one instance a new starter form to evidence when key documentation had been checked was missing from the file.</li> <li>- In two instances documentation to evidence right to work was not held</li> </ul> </li> </ul>	Moderate	Limited 

		<p>on file.</p> <ul style="list-style-type: none"> <li>- In two instances documentation to evidence two work references had been obtained was not held on file.</li> <li>- In one instance documentation to evidence only one valid work reference had been obtained was held on file.</li> <li>- In one instance documentation to evidence a medical check had been completed was not held on file.</li> <li>- In one instance documentation to evidence job acceptance or a signed employment contract was not held on file.</li> </ul> <ul style="list-style-type: none"> <li>• From examination of the declaration of business interest forms the School held on file, audit noted that a number of staff members who attended both full Governing Body and/or Committee meetings did not have a declaration of business interest form on file. It was also established that while full Governing Body meetings had a standing agenda item for declaration of interests, this was not evident in the various committee meeting minutes.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>		
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### Management Comments

The Schools Finance Manager discussed and provided options of additional support which the School could consider; such as providing a bursar service to review and support the school to implement the recommendations or commissioning an independent consultant to support the improvement in all key findings. Additional/refresher information has also been provided to the School on the guidance/procedures that need to be adhered to.

In June 2016, the School have commissioned an external finance support following the departure of their bursar, a structured review of their current documentation and processes is been reviewed, including an action plan, with key time scales for improvement. This will aid the School to implement the recommendations from this audit.

Additionally further general support action has included or will include:

- News bulletins provided to all Schools which are used to encourage good practice in Schools to support operational procedures.
- Termly director's reports to Governors include good financial management practices which Schools should follow.
- The Schools Business Managers' forum includes advice on actions to improve Audit outcomes through more self- assessment and peer to peer reviews.
- Audit check lists circulated to all Schools.

- Governors training to be provided in the Summer term.

The School have acted immediately and agreed to complete all actions within a defined timeframe. The School and the Governing body are fully committed to the recommendations made in the Audit report and will:

- be tracking all actions within the timeframe stipulated in the report, including evidence of the actions taken.
- confirm additional steps that the School are planning to take in light of the audit findings.
- take immediate action in mitigating exposure to risks arising from weaknesses in the control environment.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stewart Headlam Primary School	July 2016	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• A written Disaster Recovery Plan should be created and could include areas such as arrangements for restoring data and access to systems, alternative working arrangements/locations, as well as protocols to be followed in the event of an emergency.</li> <li>• Orders should be raised prior to making procurement card purchases, and should be appropriately certified. A separate member of staff should review the procurement card statements to provide segregation of duties.</li> <li>• The School's Scheme of Delegation and Finance Procedures should be reviewed and updated to ensure that all financial limits for procurement are clearly stated as well as who the designated responsibility lies with.</li> <li>• Declaration of pecuniary interest forms should be completed by all relevant staff members and governors as soon as possible. Governors should be asked to declare any interests at the beginning of full Governing Body meetings and this should be minuted.</li> <li>• The Policy Log should be reviewed and any errors or omissions corrected as soon as possible.</li> <li>• All reconciliations should be signed by both the School Business Manager on the preparation of the reconciliations and by the Head Teacher on the checking of the reconciliations.</li> <li>• The School should seek to obtain alternative quotes for higher value purchases. Ongoing use of particular suppliers should be reviewed to confirm whether this represents best value (compared to other similar suppliers). If long term value for money can be demonstrated, the School</li> </ul>	Moderate	Limited 

		<p>could consider creating an 'approved supplier list for times where urgent or emergency works are needed, and seek Governing Body approval.</p> <ul style="list-style-type: none"> <li>• End of journey statements should be prepared and presented to Governors. These statements should include summaries of the income, expenditure and any net surplus/deficits incurred from the journey.</li> <li>• Invoices should be paid within 30 days of being raised. If an invoice is being queried (leading to a delay in payment), this should be annotated on the respective invoice. Invoices should be retained for future reference.</li> <li>• All income should be banked in a timely manner. The insurance policy should be reviewed to confirm whether the safe limit should be amended to a more practicable amount.</li> <li>• A formal equipment loan form should be created that tracks the asset make, model &amp; serial number, requires authorisation by a delegated officer, an annual inspection and an explanation regarding the staff member's responsibility for insurance and safekeeping of the asset.</li> <li>• Employee application forms should be hand-signed by the applicant.</li> </ul> <p>All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.</p>		
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**Management Comments**

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

- Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
- Internal audit reports are used by 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 Schools 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 provided additional support to schools, via a bursar service to review and support the school in its recommendations with additional signposting them to the guidance procedures to follow.

Additionally further action included:

- News bulletins are used to encourage good practices in schools to support operational procedures
- Termly director's Report to Governors includes good financial management practices to follow.
- Schools business managers forum included actions to improve their Audits through more self-assessment.
- Audit check list was circulated to primary's (see attached)

It's proposed a member from schools finance, Audit, HR and learning and achievement will meet with the Head and Chair of Governors to support and ensure the recommendations are completed to a high standard.

## Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Registrar's Office	June 2016	<p>The objective of this audit was to provide assurance on the effectiveness and adequacy of the systems and controls LBTH has put in place for the management and control of the Registrar's Office (Register Office).</p> <p>The Registration Service has a statutory duty to provide the registration of life events, Births, Deaths, Stillbirths, Marriages, Civil Partnerships and Civil Partnership Conversions for all citizens of England and Wales who meet the criteria for the specific service and provide ceremonial services to the public. The Registration Service is governed by the General Register Office (GRO), a department within Immigration and Passport Services (IPS) at the Home Office. Over time, the Home Office has gradually released more of its registration responsibilities to local authorities. In October 2013, a review was conducted in order to assess the staffing of the service, its income sources, costs, systems, and position in the marketplace. This resulted in a proposed restructuring and business plan, which was hoped to be implemented during 2014/2015 with additional services and revised service charges. This has been a protracted process and has yet to be completed but will be fully introduced during 2016/2017.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>● Business Support Officers do not cross-check the daily cash sheets, detailing the income received on a daily basis to the individual receipts prior to reconciling them.</li> <li>● Appropriate records are not maintained for all birth, death and marriage certificates issued or spoiled. Testing was undertaken for a sample of 20 cases of which five related to spoiled certificates and 15 to issued certificates. Issues were found in two of the five cases; it was determined that in one of five cases of spoiled certificates it was not possible to</li> </ul>	Extensive	Substantial  

		<p>determine the officer responsible for the spoiled certificate. In one out of five cases there was no record of whether the certificate spoiled was a birth, death or marriage certificate.</p> <ul style="list-style-type: none"> <li>● Reconciliations undertaken are not signed by the preparer and they are not signed and dated by the reviewer.</li> <li>● Segregation of duties is not in place when placing orders using the corporate card and records in relation to the orders placed are not maintained. Items which could be purchased using Office Depot have been purchased using the corporate card, for which no documented scheme of delegation exists.</li> <li>● There is no documented Scheme of Delegation in place in respect of payments using the corporate card.</li> <li>● The process of collecting cash and recording it on the daily cash sheet was observed. It was established that two different members of staff were present; one member of staff individually counts the cash under no supervision while the other member of staff inputs the information on the daily cash sheet.</li> </ul> <p>All findings and recommendations were agreed with the Superintendent Registrar Head of Registration &amp; Citizenship and reported to the Corporate Director, Law, Probity and Governance.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors	June 2016	<p>This audit was undertaken as part of the 2015/16 agreed internal audit plan.</p> <p>The Creditors function is concerned with processing of invoices received by the Council for payment, including confirming that these have been appropriately ordered, goods and services received and certified, prior to making prompt payment.</p> <p>The Creditors system is managed using the Council's financial ledger system, Agresso Business World (ABW), which was introduced from the beginning of the 2013/14 financial year. This records purchase orders, invoices, receipting of goods and services, and payments, and uses workflows to manage requests for approvals. There have been over £27m worth of invoices paid / received by the Council since April 2015. In addition, there have been over £326m in CHAPS payments made in the same period.</p> <p>The Council also uses an electronic procurement system, Requisition to Pay (R2P), which enables suppliers to set up and maintain online price lists or catalogues for officers to use in procurement to raise purchase orders. R2P also sends e-orders to, and receives e-invoices from suppliers, and allows suppliers to request amendments to be made to the records of their details as held by the Council. Any transactions or changes to standing data made online are then fed through into the workflows of the financial ledger system for approval.</p> <p>The audit was designed to provide assurance to management as to whether the systems of control around the Creditors system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Amendments to supplier details are not always supported by adequate documentation to evidence and explain why the amendment was requested. In addition, the checks that have been made prior to the amendment are not always evidenced, and there is no independent checking of changes made after the event.</li> <li>• There is no formal system in place for disabling the access to the system</li> </ul>	Extensive	Substantial 

		<p>of employees who have left the Council's employment. In addition, there are a large number of parked accounts.</p> <ul style="list-style-type: none"> <li>• VAT is not always being correctly accounted for.</li> <li>• In the event that the Assistant Accountant is absent from work for lengthy periods, KPI reports are not produced for discussion at the Finance Management Team meetings.</li> <li>• There was no documentation in place in respect of the general ledger to the BACS payment run reconciliation procedures.</li> <li>• The independent check undertaken in respect of reconciliations is inadequate since errors are not always identified. In addition, the dates appended to the sign-off of the independent check do not appear to be accurate.</li> <li>• Although BVPI reports are being produced, they do not indicate specific cases that are not meeting the target of being paid within 30 days.</li> </ul> <p>All findings and recommendations were agreed with the Financial Systems Manager and reported to the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions	July 2016	<p>The Pensions function is responsible for the administration of the Council's pension scheme. Employees of the Council up to 75 years of age, who have a contract of more than three months duration, are entitled to join the Local Government Pension Scheme (LGPS). Decisions on delegated provisions are agreed by the Pensions Committee. The LGPS is a contributory scheme, whereby the employees contribute from their salary. Employees automatically become members of the Council's pension scheme unless they choose to opt out in writing. The scheme is contracted out of the State Second Pension (S2P) and National Insurance contributions are accordingly payable at the reduced, contracted out rate. A contracting out certificate is in force. Employees who choose not to join the pension scheme remain members of the S2P scheme.</p> <p>The identified weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• For six out of 20 refunds tested in a sample they had not been appropriately checked by a second officer and for two out of the same 20 cases, documented evidence of emails sent to Payroll had not been appropriately retained.</li> <li>• For a random sample of 20 Resource Link forms tested, one had not been appropriately signed by the officer responsible for completing the form.</li> <li>• For two out of 11 cases tested, a segregation of duties was not in place, with officers undertaking and reviewing their own work in respect of transfers into the LBTH Pension scheme.</li> <li>• For two out of 20 life certificate forms sampled, (that were sent to overseas pensioners), it was identified that they were not always appropriately completed and followed up (in the event of the form not being returned).</li> <li>• Three out of 20 (Accounts Payable) AP1 forms sampled had not been appropriately signed by all officers undertaking the work.</li> </ul>	Extensive	Substantial 

		<ul style="list-style-type: none"><li>• Reconciliations between Altair and Agresso are not completed on the agreed monthly basis. No reconciliations had been undertaken for 2016 at the time of testing.</li></ul> <p>All findings and recommendations were agreed with the Pensions Manager / Team Leader(s) and reported to the Corporate Director, Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Emergency Grants Funding	July 2016	<p>The objective of this audit was to provide assurance on the effectiveness and adequacy of the systems and controls LBTH has put in place for the management and control of Emergency Grants Funding.</p> <p>The Emergency Funding Scheme is open to Tower Hamlets based organisations that are experiencing an unforeseen emergency which is placing either the organisation or a Council funded project at risk. Organisations are able to apply for a one-off Emergency Funding Grant of up to £20,000. Requests for Emergency Funding support are assessed to establish which applications meet the scheme's criteria which includes demonstrating that the organisation provides a service that is of strategic importance to the borough; and that it has already taken/or is in the process of implementing reasonable measures to address their 'emergency' situation.</p> <p>The audit identified the following weakness:-</p> <ul style="list-style-type: none"> <li>• Verification emails were not retained in three cases in the testing of both payments and monitoring processes.</li> </ul> <p>All findings and the one recommendation were agreed with the Third Sector Programmes Manager and reported to the Head of Benefits Service and Corporate Director, Resources.</p>	Moderate	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bank Reconciliation Follow Up Audit	June 2016	<p>Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organisation's own accounting records at a particular point in time.</p> <p>The Council's Financial Procedures FM8 requires that the Council keeps proper accounting records. The objective of bank reconciliation is to ensure that all income and expenditure in the bank account that relates to a given reconciliation period matches all income and expenditure in the general ledger. This is to ensure that all monies received and spent by the Council are accounted for in the main accounting system. Bank reconciliation involves the reconciling of the Council's main bank account (and subsidiary bank accounts being reconciled individually) with all accounting records via accounting feeder systems.</p> <p>A full systems audit on Bank Reconciliation was undertaken in June 2015, for which the final report was issued in August 2015. This audit was assigned an audit opinion of Substantial Assurance.</p> <p>This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented.</p> <p>This follow up audit was undertaken as part of the 2015/16 agreed Internal Audit Plan.</p> <p>Our follow up review identified that of the four medium priority recommendations made in the original audit report, one of these has been fully implemented, two recommendations were partly implemented, and one has not yet been implemented. Following our testing, we have made three medium priority recommendations to enhance the control environment within this area. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• The Bank Reconciliation User Guide for the reconciliations undertaken outside Agresso is yet to be completed.</li> <li>• The Council is currently trying to decrease the number of bank accounts it</li> </ul>	Extensive	Substantial  

		<p>will hold when the bank moves from the Co-Op to RBS. The move has yet to happen.</p> <ul style="list-style-type: none"><li>• Bank reconciliations are not yet all being undertaken, signed off and dated on a monthly basis, and there are no effective arrangements in place to cover for staff absence.</li></ul> <p>All findings and recommendations were agreed with the Financial Systems Manager and reported to the Corporate Director, Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Enforcement and Tracing Service (Bailiffs)  Contract Monitoring	June 2016	<p>This audit provided assurance to management that the systems for monitoring the Performance of the Enforcement and Tracing Contractors are sound, secure and adequate. The Council entered into contracts as part of framework agreement with four enforcement companies for Council Tax and National Non Domestic Rates (NDR) following the granting of a Liability Order. The contracts came into force on 1<sup>st</sup> June 2015. The statutory enforcement fees are recovered by the enforcement company from the debtor.</p> <p>Audit testing showed that overall there was an adequate control environment in place. However, the following issues were highlighted:-</p> <ul style="list-style-type: none"> <li>• There was no documented approach to contract monitoring in addition to a copy of the contract. As a result the current practice does not comply with the new corporate procurement contract management approach.</li> <li>• Performance monitoring needed to be clearly recorded as part of the client/ contractor meetings in accordance with the KPIs and targets specified in the contract.</li> <li>• Independent sample testing and audit of receipt books to verify the completeness of income received from the enforcement companies needed to be undertaken.</li> </ul> <p>All findings and recommendations were agreed with the Head of Revenue Services and final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Risk Management Follow Up Audit Resources	July 2016	<p>This audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit in June 2015.</p> <p>Our testing showed that out of the two high priority recommendations made in the original report, one was partially implemented and of the two medium priority recommendations agreed, one was partially implemented and one was not implemented. Overall, improvement was required in implementing the agreed recommendations to make the risk management system more effective within the Directorate.</p> <p>The Directorate risk management protocol was circulated to all the relevant officers within the Directorate. However, our review of the Directorate risk registers on JCAD showed that 19 of the 48 risks did not have control measures; 21 risks did not have a target review date; and 9 had passed their review dates but not yet reviewed. In addition, risk assessment needed to have periodic challenge to provide assurance to the DMT that risk scoring across the Directorate was consistent and effective. In addition, sample checks needed to be carried out on the quality of the control measures and other aspects to provide assurance that control measures were firstly in place and were appropriate and effective.</p> <p>All findings and recommendations were agreed with the Head of Risk Management and final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Back Office Revenue Collection and Processing	July 2016	<p>The objective of this audit was to provide assurance on the effectiveness and adequacy of the systems and controls LBTH has put in place for the management and control of the Council's back office revenue collection, processing, payment and support functions provided by the ex-Cashier's Office at Albert Jacob House, which has been renamed as the Revenues Processing and Reconciliation Office.</p> <p>Public access to the Tower Hamlets Cash Office ceased around three years ago. As a result, the level of cash transactions has reduced and, in addition, there is no longer any function/requirement for the office to manage petty cash transactions. Although the ex-Cashier's office is formally shut to the public, the existing system still allows for members of public to physically attend Albert Jacob House to collect emergency grants (such as for living expenses) which are paid in cash.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Upon sample testing 20 crisis and support grant applications that were processed at the Revenues Processing and Reconciliation Office, it was identified that in all 20 cases there was no segregation of duties, i.e. the same officer who assessed a grant application also approved it for payment.</li> <li>• While the till cash is balanced daily and the total cash on premises is balanced weekly it was identified that this balancing is done in an Excel sheet that is not electronically signed by the staff as evidence of having performed the balancing activity.</li> <li>• There was no evidence to confirm that periodic review of the staff guidance documentation is undertaken.</li> <li>• Where the mode of payment for a transaction is postal order, the details of the postal order need to be recorded in the postal order book upon receipt. In two of the three sample cases tested, this was not completed in line with expectations.</li> <li>• It was established that, in the event of one of the safe key custodians proceeding on planned leave, the key is kept on the premises in a safe place, and the location of the key is informed to the other custodian. It was identified that this raises a risk that cash is handled by one person only, thereby lacking segregation of duties.</li> </ul>	Extensive	Substantial  

		<ul style="list-style-type: none"> <li>• Upon sample testing 20 transactions (to confirm the adequacy of banking arrangements) exceptions were identified relating to a mismatch in amount banked, only a single signature being evident on the receipt issued by the security firm, and a mismatch of bag numbers noted on the receipt and bank GIRO slip.</li> <li>• Upon sample testing 20 transactions that were posted to suspense account, in 12 cases the transaction receipt date was not recorded, hence it could not be confirmed whether the monies were posted to suspense in a timely manner.</li> <li>• Upon sample testing 20 Court of Protection payments made at the Revenues Processing and Reconciliation Office it was found that, in all cases where it was a standing payment, there was no evidence to confirm that the identity of the cash collector had been established before payment.</li> </ul> <p>All findings and recommendations were agreed with the Processing and Reconciliation Manager and reported to the Service Head (Revenue Services) and Corporate Director, Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
VAT Follow-Up	July 2016	<p>The VAT function is concerned with ensuring that all VAT payable to HMRC is paid correctly and in a timely manner, and that VAT claimed back from HMRC is accurate.</p> <p>A full systems audit on VAT was undertaken, for which the final report was issued, in November 2015. This audit was assigned an audit opinion of Substantial Assurance. This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented. This follow up audit was undertaken as part of the 2016/17 agreed Internal Audit Plan.</p> <p>Our follow up review identified that of the six medium priority recommendations made in the original audit report, three of these have been fully implemented and three have been partly implemented. Following our testing, we have made three medium priority recommendations to enhance the control environment within this area. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• A Version History Control document should be appended to the VAT Procedure Notes detailing the next review date and officer responsible for the review.</li> <li>• From our sample testing of supporting documentation retained on Agresso, in one out of five instances, who had approved the journal could not be evidenced.</li> <li>• The Partial Exemption Calculation should be signed-off once the closure of accounts has been completed.</li> </ul> <p>All findings and recommendations were agreed with the Operational Accountancy Manager and the Service Head Finance and Procurement and reported to the Corporate Director, Resources.</p>	Extensive	Substantial  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Right to Buy Follow Up Audit	June 2016	<p>This audit followed up recommendations made in the previous audit finalised in July 2015. The follow up showed that of the four high priority and five medium priority recommendations made at the conclusion of the original audit, two high and three medium priority recommendations had been addressed and one high priority recommendation was not required to be followed up due to exceptional circumstances under which the recommendation was made at the time of the original audit.</p> <p>Following our testing, we have made one high priority and two medium priority recommendations to enhance the control environment within this area. The areas of weakness are as follows;</p> <ul style="list-style-type: none"> <li>• The external outsourced provider is not undertaking the valuation activities in a timely manner in all cases for properties which are processed under RTB. We were informed that the SLA between THH and LBTH has expired and it was mutually accepted by both parties that the timeline of 21 days was practically not achievable. However, this was neither documented anywhere, nor was the SLA revised</li> <li>• THH is not in compliance with the required thorough check of joint applications under the RTB scheme when confirming previous residency at the time of application.</li> <li>• Evidence in relation to checking RTB applicant's eligibility, which is checked by a Team Leader/senior officer/independent officer, is not being retained on file.</li> </ul> <p>All findings and recommendations were agreed with the Head of Leasehold Services and final report was issued to the THH Chief Executive.</p>	Extensive	Substantial  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Specialist Repairs Contracts	June 2016	<p>This audit was designed to provide assurance to management as to whether the systems of control around the Specialist Repairs Contracts system are sound, secure and adequate. THH has a legal responsibility to conduct checks on every gas boiler or other installation located in a tenanted property. THH is also responsible for conducting repairs and maintenance on any gas installations on behalf of their tenants, and in void properties. The contract was previously held by Gem and from April 2015 has been held by Mears. This is managed and monitored as an addendum to the Mears General Build contract and was entered into by the issuance of a variation to the contract at the start of 2015/16.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Repairs are not always being completed in a timely manner by sub-contractor Gem.</li> <li>• As per the contract with Mears, THH is required to post-inspect 10% of all repairs costing under £1k. From our testing, we identified that the actual amount of post-inspections being undertaken was slightly less than 10%.</li> </ul> <p>All findings and recommendations were agreed with the Maintenance &amp; Engineering and Specialist Team Manager, Head of Repairs and reported to the Strategic Housing Manager, Director of Finance and the Chief Executive at THH.</p>	Extensive	Substantial  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Major Works Follow-Up	August 2016	<p>Major works are usually large ‘one-off’ projects designed to extend and improve the life of a building, and could include the replacement of old windows or the replacement of a broken lift. They are typically payable under the terms of leaseholders’ agreements with the Council. As per Section 20 of the Landlord and Tenant Act 1985, Tower Hamlets Homes (THH) is required to carry out statutory consultations with leaseholders for all repairs and maintenance expenditure over the statutory levels of £250 for any one leaseholder for works of maintenance, repair or improvements, or £100 for any one leaseholder for works carried out under a qualifying long term agreement.</p> <p>A full systems audit on Major Works was undertaken in 2014 for which the final report was issued in April 2014. Our follow up review to this, identified that, of the two high priority recommendations made at the conclusion of the original audit, both have been fully implemented. Of the four medium priority recommendations made, two have been fully implemented, one has been superseded and one has not been implemented. Following our testing, we have made one medium priority recommendation to enhance the control environment within this area. The issue still outstanding is as follows:</p> <ul style="list-style-type: none"> <li>Final accounts audits have taken between one to two years to be completed from the date of completion of the works. Without the account being audited, Leaseholder Services are unable to raise the final invoice based upon the agreed final account figure. In addition, Property Services are yet to send the audited accounts to Leaseholder Services so they have not been able to issue the invoices for final payments to be made.</li> </ul> <p>All findings and recommendations were agreed and communicated to the Head of Property Services, Head of Business Development, Head of Leasehold Services, Director of Neighbourhoods, Director of Finance, Director of Asset Management and Chief Executive.</p>	Extensive	Substantial ↔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Children Missing Education Systems Audit	June 2016	<p>This audit reviewed the local education authority's systems and processes in place to identify, to report and to take the necessary action in response to missing children under its statutory responsibility.</p> <p>Overall, our testing showed that there was an adequate system in place for reporting and identifying those children missing education. There is a centralised Missing Children's Register in place, which is monitored for action and reviewed by an officer level group which meets every two weeks. Our sample testing of actions taken in accordance with procedures for those children who were current cases on the missing children's' register and some closed cases showed the following issues:-</p> <ul style="list-style-type: none"> <li>• There was further scope for improvements to the format of current policies and procedures to reflect best practice, including controlled access to the Missing Children's Register.</li> <li>• Improvements were needed in terms of further proactive actions that can be taken to identify the location of missing children.</li> <li>• There was opportunity to review the contributory factors that resulted in children being placed on the missing children's' register.</li> <li>• Recording of the risks in the corporate risk register and the Council's website of the public perception of the council's powers and available actions for missing children.</li> </ul> <p>All findings and recommendations were agreed with the Head of Children's Social Care and final report was issued to the Service Head, Children's Social Care and Corporate Director of Children's Services.</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Recovery of Unspent Funds from Individual Budgets for Adults Social Care	July 2016	<p>This audit examined systems for recovering of unspent funds paid to service users as part of the direct payment process. Cash payments are made directly to service users (or their nominated representative) so that they can arrange their personal or individual care needs themselves by procuring their own support. One aspect is the management/usage of the cash funds which may result in underspends at year-end. Procedures are in place for claw back or variations to be effected to bring the care plan amounts in line with usage/requirements. However, we highlighted the following issues:-</p> <ul style="list-style-type: none"> <li>• Direct payment policies and procedures had not been reviewed since November 2006, and there were no written procedures in respect of the recovery of funds or write offs. Claw-backs were not being applied in a consistent manner in accordance with the claw back calculator in all eligible cases where underspends of Direct Payments was noted.</li> <li>• Testing showed that the correct amounts were not always recovered as required by the claw-back calculator, and case notes were not on file to show the reason for non-compliance with the claw-back calculator.</li> <li>• The annual reviews for care plans in line with statutory requirements were not completed in 6 of the 20 sample cases. A set of KPIs and management reports were not in place to monitor the effectiveness of the service.</li> <li>• Monies received were banked, however, the spreadsheet for banking the claw back monies was not fully completed with the required details.</li> </ul> <p>All findings and recommendations were agreed with the Acting Service Head, Commissioning and Health and final report was issued to the Director, Adults Services.</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Transparency Code 2015 Compliance Audit	June 2016	<p>The main objective of this audit was to provide assurance to management that systems deployed in the organisation for collating, quality checking and publishing of the necessary information, are operating as expected to meet the requirements of the Local Government Transparency Code 2015.</p> <p>Our testing showed that there was a system in place for collating the required information for publication at Directorates' level coordinated by the Information and Governance Team. A timetable for publishing the required information was in place to facilitate publication of data required by the 2015 Code. The following issues were also reported:-</p> <ul style="list-style-type: none"> <li>• Payments over £500 were being published later than required by the code. We recommended a process change for collating and timetabling of data in this area. We also noted that names of payees had not been redacted in some instances.</li> <li>• Although the FOI Board's responsibilities in relation to the oversight of other of its functions was defined within its Terms of Reference, the responsibility and oversight function for ensuring compliance with the Transparency Code was not clearly laid down.</li> <li>• We noted that procedures were not in place at Directorates' level to ensure that data to be published was checked and certified as being correct at the time of publication.</li> <li>• We noted non-compliance with the code for publishing all spend on procurement cards. At present only transactions over £500 is published, whereas the code requires all procurement card transactions to be published.</li> </ul> <p>All findings and recommendations were agreed with the Interim Head of Legal Services and final report was issued to the Corporate Director of Law, Probity and Governance.</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Efficiency Savings Programme	June 2016	<p>This review examined the systems and controls for managing and monitoring the Council's savings programme. In order to deliver the savings of £17.762 Million for 2016/17, a number of efficiency savings had been agreed. The delivery of the savings proposals was managed by individual Directorates and overseen by the Corporate Management Team. Our testing showed that each efficiency proposal for 2016/17 was supported by full Savings Proposal Pro-forma which was approved by Members and the papers had been made publicly available for inspection via the Council's website. A Corporate Transformation Programme Master Savings Tracker is maintained by the Benefits Realisation Analyst for monitoring and reporting purposes. Progress of savings is subject to RAG monitoring which is updated monthly by Directorates. The following issues were highlighted:-</p> <ul style="list-style-type: none"> <li>• Of the 57 savings proposals agreed by Cabinet, 52 were subject to a risk assessment. The exceptions being those savings proposals relating to Law, Probity and Governance Directorate.</li> <li>• Although in a majority of cases, adequate working papers were maintained by the Directorates, no workings papers were received from LPG Directorate and no working papers available for two viz. ADU012/16-17 (£1.0 Million) and CHI008/16-17 ( £50 k).</li> <li>• At the time of audit, savings totaling £24.422 Million for 2015/16 were reported as 'banked' against Cabinet approved savings of £30.650 Million. Variance against Cabinet approved savings was shown as £2.798 Million, mainly emanating from Adult Services (£1.338 Million) and Children's Services (£1.460 Million). Audit was advised that DMT's were currently working on how to address these matters. However, at time of reporting no firm plans had yet been put in place.</li> </ul> <p>All findings and recommendations were agreed with the Service Head , Finance and Procurement and final report was distributed to all Corporate Directors.</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Risk Management Follow Up Audit</p> <p>Development and Renewal</p>	<p>June 2016</p>	<p>This audit followed the agreed recommendations at the conclusion of the original audit in April 2015.</p> <p>Our testing showed that out of 3 high priority recommendations made in the final report, all had been progressed. The one medium recommendation was also fully implemented.</p> <p>Our review showed that that a new risk management protocol has been implemented and has been circulated within the D&amp;R Directorate. The protocol; was also consulted with Internal Audit for advice. Furthermore the Business Assurance and Efficiency Co-ordinator has taken an active role in facilitating the risk management process within the Directorate by highlighting outstanding risk reviews and issues from internal audit reports and offering advice and assistance to risk owners. The Business Assurance and Efficiency Co-ordinator also escalates risks to the Risk Champions Group for further reviews and challenge. However, we have noted that risk owners are not as responsive as they should be in reviewing their risks on a timely basis and comply with the approved methodology. We have recommended that as a matter of good practice, the Risk Champion should provide assurance to the DMT on a periodic basis that risk management and scoring across the Directorate is consistent and effective.</p> <p>All findings and recommendations were agreed with the D&amp;R Service Head Resources and final report was issued to the Corporate Director of Development and Renewal.</p>	<p>Extensive</p>	<p>Substantial</p> <p style="text-align: center;">↔</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Poplar Mortuary	July 2016	<p>The objective of this audit was to provide assurance on the effectiveness and adequacy of the systems and controls in place for the management and control of the Poplar Mortuary.</p> <p>The Public Health Act 1936 gives local authorities' power to provide a mortuary for the reception of bodies and the carrying out of post-mortems. The Council's Public Mortuary, situated in Poplar High Street, is part of the Inner North London Coroner Area Authority, a consortium shared with Islington and Hackney Public Mortuaries and led by Camden Public Mortuary based at St. Pancras. Responsibility for the consortium of public mortuary services resides with the area Coroner governed by the Lord Chief Justice, and therefore beyond the remit of the local authorities. All supporting services to the Coroner, within the mortuary, when working in Tower Hamlets, are provided by the Council's Environmental Health and Trading Standards Service within Safer Communities. The principal aim of the Tower Hamlets Public Mortuary is to provide services to Her Majesty's Coroner and ensure compliance with the Human Tissue Act 2004 that came into force in September 2006.</p> <p>The identified weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• From a sample of twenty body releases tested there was one instance where the incorrect date had been recorded in the Mortuary Register against the Coroner's record.</li> <li>• For one out of 20 items in the stock list tested, the incorrect amount of Formalin had been recorded.</li> </ul> <p>All findings and recommendations were agreed with the Head of Environmental Health and Trading Standards and reported to the Corporate Director, CLC</p>	Moderate	Substantial  

### Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Agnes Catholic Primary School	July 2016	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• Declarations of interest should be a standing item on all committee meeting agendas.</li> <li>• The minutes of all committee meetings should be signed by the Chair of the Committee to verify that the minutes reflect an accurate record of the discussions held.</li> <li>• The School should ensure an annual inventory check is carried out and evidence is retained. The results of the inventory check should be presented to the Full Governing Body for review and approval.</li> <li>• The school should develop a standard checklist as part of the leavers check process. The check list should include acknowledgement of :               <ul style="list-style-type: none"> <li>- Return of access pass;</li> <li>- Notification sent to the ICT coordinator;</li> <li>- Return of loaned equipment, and repayment of other outstanding payments or loans if applicable.</li> </ul> </li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.</p>	Moderate	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Matthias Primary School	July 2016	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• The inactive committees should be reactivated and the terms of reference should be reviewed and approved by the Full Governing Body. If the sub committees are not required by the School, the decision and reason should be minuted in the Full Governing Body minutes.</li> <li>• Purchase orders should be raised for all purchases, where appropriate, and independently signed-off by an authorised signatory before an order is placed with the supplier. In cases of emergency where a purchase is made without a purchase order, a retrospective purchase order should be raised.</li> <li>• Declarations of Business Interests should be obtained on an annual basis for all staff with financial responsibilities.</li> <li>• The School Development Plan 2016/17 should be presented to the Full Governing Body for review and approval as soon as it has been completed.</li> <li>• The School should ensure that all new staff complete a health check and evidence is retained in the staff personnel files.</li> <li>• Management should ensure that bank reconciliations are signed by the officer completing the reconciliation and subject to checks by a second independent officer.</li> <li>• A leavers checklist should be developed to assist in the staff leaver process and retained in the staff personal files. <ul style="list-style-type: none"> <li>- The checklist should include acknowledgement of:</li> <li>- return of access pass;</li> </ul> </li> </ul>	Moderate	Substantial 

		<ul style="list-style-type: none"> <li>- notification sent to the ICT coordinator;</li> <li>- return of loaned equipment, and</li> <li>- repayment of other outstanding payments or loans if applicable.</li> </ul> <ul style="list-style-type: none"> <li>• The School should ensure that evidence of the annual inventory check is retained and the results of the inventory check are presented to the Full Governing Body as soon as the check is completed.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Anne's Catholic Primary School	July 2016	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• The TOR for all Committees should be reviewed and approved by the Full Governing Body on an annual basis. This should be carried out at the first meeting of each academic year and the Head Teacher should ensure that this is minuted accordingly.</li> <li>• The School Funds Accounts should be audited on an annual basis by an individual with relevant financial knowledge and independent of the operation of the school.</li> <li>• The audited accounts should be presented for review to the Full Governing Body, or delegated committee, and the approval clearly minuted.</li> <li>• The School should present the business cases of large contracts to the Full Governing Body for approval before formally entering into a contract. The approval should be recorded in the minutes of the meeting.</li> <li>• Declarations of Business Interests should be obtained on an annual basis for all staff with financial responsibilities.</li> <li>• The SDP should be reviewed and updated annually. The revised SDP should be presented to the Full Governing Body for review and approval and minuted accordingly.</li> <li>• The School should submit for market testing on a periodic basis the services that they contract from the Local Authority and private contractors to help ensure that they are achieving value for money.</li> <li>• A purchase order should be raised for all purchases where appropriate, and independently authorised by an authorised signatory before the order is placed with the supplier.</li> </ul>	Moderate	Substantial 

		<ul style="list-style-type: none"> <li>• Income received by the School should be banked on a regular basis to ensure that the safe limit is not breached.</li> <li>• A Debt Management Policy should developed by the School covering actions to be taken to recover debts.</li> <li>• The Debt Management Policy should be presented to the Full Governing Body for review and approval, and for noting in the minutes.</li> <li>• The School should ensure the results of the annual inventory check is presented to the Full Governing Body for review and sign off once the check is completed. This should be formally minuted in the meeting.</li> <li>• The School should ensure that an End of Journey Statement should be produced and presented to the Full Governing Body for noting following approval / sign-off by the Resources Committee.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Marion Richardson Primary School	July 2016	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• The Senior Leadership Team should remind staff that purchase orders should be raised for all purchases where appropriate and independently signed-off by an authorised signatory, before an order is placed with a supplier. Where staff are unsure, they should seek advice from the School's Finance Team.</li> <li>• The School should ensure that all income is accurately recorded on the Schools Information Management System (SIMS) as soon as income is received so that it can be reconciled back to the Financial Management System (FMS).</li> <li>• The School should ensure that an End of Journey Statement should be produced and presented to the Full Governing Body and the Finance &amp; General Purposes Committee for review and approval as soon as the trip had concluded.</li> <li>• The School should ensure the results of the annual inventory check is presented to the Full Governing Body for review and sign-off as soon as the check is carried out and this should be minuted accordingly.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.</p>	Moderate	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Thomas Buxton Primary School	July 2016	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• The School should ensure that income is either: <ul style="list-style-type: none"> <li>- banked more than once a week so that the cash held on the premises does not exceed the £500 limit as set out in the School's insurance policy; or</li> <li>- investigate whether its insurance policy could be adjusted to cover larger sums of cash held on site.</li> </ul> </li> <li>• The School should review and follow-up on unreconciled items as part of the monthly banking reconciliations.</li> <li>• The School should ensure that all application forms are signed at the interview stage.</li> <li>• Staff should be reminded that the tax status of all self-employed individuals must be confirmed to ensure PAYE / NI is deducted accurately. The School may wish to consider the implementation of a checklist (to be completed upon appointment and as required) to provide assurance that such verification has been obtained.</li> <li>• For all future journeys, the initial costing report should be retained on file and an 'End of Journey' Statement presented to the Full Governing Body for review and approval in a timely manner.</li> </ul> <p>All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial 

**APPENDIX 2 (B)**

<b>Title</b>	<b>Date of Report</b>	<b>Comments / Findings</b>
Review of Concession Contracts for Ice Cream Pitches	June 2016	<p>On 20<sup>th</sup> November 2015, the Head of Audit received a whistle blow inquiry from an unsuccessful bidder regarding the Letting of Concession Contracts for Ice Cream pitches in Victoria Park for Lot 15. This bidder had been through the Council's Complaints procedure and had issued stage 1, stage 2 and stage 3 complaints. Responses to all these complaints had been sent out by the Council, but the complainant was not satisfied that his complaints had been investigated and addressed properly. The Head of Audit initiated an audit investigation into the evaluation and award of the concession contract. The estimated value of concession income for letting of the 7 Lots of Ice Cream Pitches in various parks would yield an income of £40,050 p.a. (i.e. £120,150 over three years).</p> <p>The Council's Procurement procedures at para 4.1 of the Procedures specifies that 'Corporate Directors' have responsibility for all contracts tendered, let and managed by their departments. They are accountable to the Cabinet for the performance of their duties in relation to contract letting and management'.</p> <p>Our review highlighted the following control weaknesses in the tendering and complaint investigation process, which can make the award of the contract non-compliant :-</p> <ol style="list-style-type: none"> <li>1. There was a significant control failure over price evaluation and scoring. The evaluation team, assisted by Procurement officers, carried out incorrect and inconsistent price evaluation and scoring across all the bidders for all the Lots.</li> <li>2. The control over quality assessment and scoring also failed. The quality evaluation was carried out by three Parks Officers and reviewed by the Procurement Officer.</li> <li>3. There were significant flaws in the contract award report. Although reviewed by a Procurement Officer, the contract award report was deficient and did not meet the expected standards.</li> <li>4. The control over preparation and sending out of letters to successful and unsuccessful bidders failed absolutely. These letters were prepared by an officer who carried out tender evaluation and against whom the complaint was later made. The letters contained incorrect scoring details.</li> <li>5. The officers were involved in the whole process of tender advertisement, tender preparation, agreeing to changes in tender documentation, tender evaluation, tender award report, communication with bidders outside the Portal, preparation and dispatch of successful and unsuccessful letters, issuing of contract</li> </ol>

		<p>documentation, notification to Debtors of income to be invoiced and contract monitoring. This represented non-compliance in the principle of segregation of duties in the tendering process and the necessary management oversight, scrutiny and authorisation of key decisions.</p> <ol style="list-style-type: none"> <li>6. The complainant's concerns about the price and quality scoring of his bid and swapping of his scores were not addressed fully. Although he was informed by the Head of Parks in a response to his complaint that Procurement would be asked to double check scoring, no such referral was made to the Head of Procurement.</li> <li>7. The complaint regarding the social media contact via Facebook, between the successful bidder for Lot 15 and Parks Community Engagement Officer appeared not to have been investigated thoroughly.</li> <li>8. Overall, our opinion is that there were a series of significant lapses and failure of control procedures in the award of the Ice Cream pitches.</li> </ol>
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<p><b>Management Comments</b></p> <p>The findings of this audit review have been noted and the previous procurement exercise has been set aside. A new contract is being re-tendered. Procurement processes are being re-tendered to ensure the findings are addressed and a follow up audit will be undertaken as part of the audit plan.</p>
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Title	Date of Report	Comments / Findings
Review of Youth Services	Aug 2016	<p>The Risk Management team had received and investigated a number of allegations of irregularity and fraud relating to the financial years 2013/14 and 2014/15 that raised concerns over the effectiveness of the control environment operating within Youth Service.</p> <p>The key areas reviewed were; Governance; Financial Management and Control; Human Resource Management; and Monitoring and Inspection of Youth Service Delivery. Key findings arising from each of these areas is provided below.</p> <p><b>Overall Findings and Governance</b></p> <p>Our examination found that during 2013-2015, the governance of Youth Services had fallen below the standards expected by the Council, compromising the aims and objectives of the service. We noted that: -</p> <ul style="list-style-type: none"> <li>• There had been a failure to declare business interests in organisations that had received funding from the Council;</li> <li>• Payments had been made to organisations for provision of youth service that either did not exist in reality or provided questionable outcomes; and</li> <li>• There was little evidence of regular or effective monitoring of services provided and the Council's Financial Regulations and procurement procedures were not complied with in the purchase of goods and services.</li> </ul> <p>Cases were identified where either duplicate or excessive claims were made for hours worked, and the system for recruitment had been compromised by either being worked round or controls around DBS checks not being applied. In one case a person was re-employed having previously been dismissed for gross misconduct.</p> <p>These failures reflected a fundamental lack of good effective governance and the absence of checks and balances had compromised the service's ability to demonstrate it was being run effectively.</p> <p>The provision of youth work is by nature difficult to adequately measure success however it is clear from the work undertaken from this audit that the lack of effective controls resulted in some organisations being paid when</p>

the organisations appear not to have existed.

It was noted that 21 of the 260 staff members had business interests that were not disclosed to the Council. The failure to declare, record, review and manage potential or actual conflicts of interest as required by the Council's policies and procedures further compromised any monitoring that may have been provided as being sufficiently independent.

### **Financial Management and Control**

The Youth Service had a mechanism in common with many other parts of the Council for the use of purchase cards, to be used to facilitate purchases to enable, inter alia, the payment to suppliers where BACS payment is not possible or where a supplier's invoice is not raised.

The Council has established controls around the use of these cards; the amounts that can be spent per card which is £1,000 per transaction with a maximum spend of £4,000 in a month. Further, the purchase cards have 'closed categories' where card users cannot use the purchase card where its use is outside the scope of the 'for work' conditions.

A review of the use of these cards for the financial year 2014/15 highlighted 14 purchase card holders based within Youth Services. The total spent was over £149,000 in the period.

In eight cases, card holders had exceeded their monthly limits on seven occasions. One card holder had exceeded their monthly limit on fourteen occasions and spent a total of £91,000 over a two year period.

Other expenditure on leisure activities and coach hire was identified, which could have potentially be procured using the Council's purchase order system and processed following receipt of an invoice where paid using purchase cards.

There were also four cases where Youth Service staff had a direct interest in the suppliers used and these procurements had breached the financial threshold stated on the supplier set up. The concerns raised by this examination led to a review of 2013/14 card use to establish the extent of the spend in that period. The review is on-going and its findings will be reported to the audit committee in due course.

It is clear from the examination of 2014/15 purchase cards that little or no meaningful monitoring was undertaken and a culture of using purchase cards more widely than originally intended had developed. The number of purchase card holders has since been significantly reduced following senior management action and all

	<p>expenditure is reviewed prior to approval.</p> <p><b>Human Resource Management</b></p> <p>Our key findings highlighted individuals were delivering youth service provision without being formally on the Council's payroll or DBS checks being undertaken.</p> <p>There have been instances of excessive hours claimed by some staff and management controls have failed to prevent this and in some cases low salary rate engagements have resulted in significant payments. This was particularly focussed on zero hour or 14 Hours and under cases where housing benefit could also be claimed. Instances such as these have been referred to the Department for Works and Pensions.</p> <p><b>Monitoring and Inspection of Youth Service Delivery</b></p> <p>37 visits were made to youth clubs over 3 days in February 2016. The work was commissioned by the Interim Head of Integrated Youth and Community Services. The examination highlighted the following issues.</p> <ul style="list-style-type: none"> <li>• 10 clubs had between 0-5 participants;</li> <li>• Nine clubs had between 6 and 10 participants and seven clubs had over 10 participants;</li> <li>• Seven organisations had more than 10 attendees;</li> <li>• In 11 cases the number of young people could not be verified.</li> </ul> <p>The following observations arose from the visits:-</p> <ul style="list-style-type: none"> <li>• On the whole, most organisations provided detailed session plans with activities in line with the plan. However, six organisations appeared to be offering just indoor games, pool and PlayStation games;</li> <li>• Different variations of attendance sheets were in use; some listed all names of attendees and placed ticks against those in attendance whilst others printed the names of attendees. There was no space on the attendance register for entry / exit times which could cause difficulties in identifying youths in the event of a fire / evacuation;</li> <li>• Health and Safety concerns were raised at eight organisations who could not provide evidence they had carried out fire alarm tests or inspections and where the fire extinguishers were out of date or had not been tested; and</li> <li>• Anti-social behaviour and graffiti was noted at four organisations.</li> </ul>
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		Going forward disciplinary action has been instigated where the Council considers officers' conduct has fallen short of its ethical standards and significantly, systems improvements that require corporate consideration to ensure risks are managed effectively and confidence can be established in financial and operational systems are being actioned.
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## Management Comments

Management within the youth service is committed to undertaking the necessary actions that will provide assurances that steps are being taking to address the historic shortcomings within the service as articulated in this report. As a result the service has undertaken work with colleagues in Human Resources, Procurement; and Law, Probity and Governance to produce a robust action plan designed to resolve any outstanding issues as they relate to governance and practice.

The following management actions have been taken by the Youth Service:

- **Whistle blowing:** In May 2016 policy reminders were circulated on the staff code of conduct to all staff. The policy reminder included an item on whistleblowing.
- **Recruitment processes:** In 2015/2016 the Service Head for Safer Communities introduced recruitment control measures to design out bias and personal patronage in the IYCS recruitment process. These are subject to on-going review.
- **Credit card usage:** In 2015/2016 the Service Head for Safer Communities withdrew corporate credit cards from certain member of IYCS staff; Introduced a Head of Service sign off on all spend over £100; and commissioned internal audit to review previous corporate credit card expenditure.
- **Finance - AP1 Procurement processes:** IN 2015/16 the Interim Head of IYCS introduced additional scrutiny into all AP1 payments leading to a number being held or referred for investigation. From 1<sup>st</sup> April 2016 all purchases for supplies and services are processed on purchase orders and invoices rather than AP1's.
- **IYCS Grant making process:** In March 2015 additional controls were introduced, following the arrival of the Commissioners, around all grant making processes. In November 2015 all grant making processes in the service were put on hold. During 2016/2017 contractual processes have been implemented wherever possible to avoid AP1 use except in emergencies.
- **Disclosure of personal interests:** As at April 2016, and on-going, the Interim Head of IYCS has ensured that all IYCS managers have undated their expressions of interest and that have cascaded this action to their staff. Any declarations are flagged directly to the Interim Head Service.
- **Disclosure and Barring Scheme (DBS):** In 2015/16, and on-going, the interim Head of Service has been following up on expired DBS' and missing risk assessments with relevant members of staff and HR.
- **Payroll systems and additional hours claiming:** In November 2015 the Interim Head of IYCS:
  - Placed a ban on additional hours and overtime;
  - and implemented a procedure in which all signed timesheets were sent to her for central review before being passed onto payroll.
- **Procurement:** From April 2016 the Interim Head of youth service introduced a central procurement of goods and services for use within the IYCS.

- **Use of youth Centre buildings by third party organisations:** In 2015/2016 the Interim Head of youth service worked with Corporate Asset Management to ensure that any third party organisation using youth centres were brought in line with the Corporate Landlord model and any buildings rented by the IYCS were subject to corporate valuation and suitable lease arrangements. As at August 2016 the interim head of youth service was devising a booking and fee charging policy for youth centre usage by third party organisations.

**APPENDIX 3**

**Follow Up Audits – List of Priority 1 Recommendations still to be implemented**

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Service Head</b>	<b>Officer Name</b>
Risk Management Resources	It should be ensured that the Directorate Risk Register is reviewed on a quarterly basis to ensure that the quality of risk identification and assessment is of good standard and that emerging risks are captured, assessed and mitigated effectively	Service Head, Risk Management and Audit	Strategic Risk Advisor

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

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Service Head</b>	<b>Officer Name</b>
Risk Management Resources	It should be ensured that sample checks are carried out on the quality of the control measures and other aspects by the Risk Champion to provide assurance to the SMT/DMT that control measures are firstly in place and are appropriate and effective so that risks are being successfully mitigated.	Service Head, Risk Management and Audit	Strategic Risk Advisor
Bank Reconciliation	Management should ensure that a comprehensive reconciliation of bank accounts is undertaken on a monthly basis, which are signed and dated following review by an independent officer. An officer should be assigned responsibility for making sure that all accounts are reconciled on a monthly basis.	Service Head Finance and Procurement	Operational Accountancy Manager

Non-Executive Report of the:  <b>Audit Committee</b>  20 <sup>th</sup> September 2016	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke - Corporate Director Resources	<b>Classification:</b> [Unrestricted or Exempt]
<b>Annual Risk Management Report 2016/17</b>	

<b>Originating Officer(s)</b>	Minesh Jani
<b>Wards affected</b>	All wards

## REASON FOR URGENCY

The reason the report was unavailable for public inspection within the standard timescales set out in the Authority’s constitution because the initial draft report needed to be updated to reflected management comments and audit findings following the preparation of the initial draft. It is important the audit committee has an up to date understanding of the internal controls environment and the planned management action to allow it to appraise the Council’s control environment.

The Chair of the Committee is satisfied that the report cannot be deferred to the next meeting on the 8<sup>th</sup> November 2016 as this would mean that that Committee will not be able to approve the draft Annual Governance Statement to meet the statutory deadline of 30 September. The findings arising from the quarterly assurance report and the annual risk report are also considered alongside the Annual Governance Statement.

### 1. Summary

1.1 The purpose of this report is to provide the Audit Committee with:

- a) An oversight of the authority’s processes to facilitate the identification and management of its significant business risks.
- b) Summary of the Q1 2016/17 Corporate Risk Register
- c) Risk Management Team activity over the last 12 months

The report enables the Audit Committee fulfil part of its functions as set out in the Committee’s terms of reference item no.8 - to review the Risk Management arrangements of the authority.

## **2. Recommendations**

### **2.1 The Committee is asked to: -**

- note the contents of this report;
- agree the actions highlighted at section 9;
- consider the corporate risks (table 2 on pages 7 and 8 of the attached paper) that the committee want to scrutinise; and
- request the risk owner(s) requiring further scrutiny provide a detailed update on the treatment and mitigation of the risk including impact on the corporate objectives at its December meeting.

## **3. Background**

- 3.1 Risk management is an integral part of good corporate governance. There are many definitions of corporate governance but the one used by CIPFA is “.....the procedures associated with the decision making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy expectations of accountability to those outside it”.
- 3.2 All organisations face risks in everything that they do but by the proper management of its risks, organisations can benefit by reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. Over the last few years, the use of risk management as a tool in the public sector has gained strength as the appreciation of how risk management can be used as a technique for delivering an efficient and effective service to all its stakeholders. This is demonstrated in guidance issued by CIPFA / SOLACE, “Delivering Good Governance in Local Government”, which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control.

The council has developed a formal Risk Management framework and processes which is supported by the Risk Management and Audit team. This is part of the council’s corporate governance process and contributes to its compliance with Financial Regulations and Procedures as well as the Accounts and Audit Regulations 2011 (as amended). It is also a key part of the council’s Annual Governance Statement which is approved by the Audit Committee in June each year.

The council recognises that it has a responsibility to manage business risks and opportunities in a structured manner in order to achieve its corporate objectives and enhance the value of services it provides to the community.

### **Managing Key Risks**

The Council’s risk management process is implemented across Directorates,

Business Units and Projects. On a quarterly basis each Directorate review and updates the risks captured on their risk registers and adds any new or emerging risks.

New risks and key changes to current risks are discussed and challenged at Directorate and Corporate Management Team meetings. Annually each directorate is encouraged to undertake a full risk review in line with service and financial planning processes. Key risks are included within relevant Directorate and Divisional business plans and are also reported to Audit Committee. This reporting format ensures that the council's risk management framework remains embedded and the reporting of risks remains "live" across the organisation. Further information on risk reporting can be found in the council's risk management strategy 2015-2020 to be issued in September 2016.

The council's risk management policy and the risk management strategy are reviewed and refreshed annually. Both items are approved by the Corporate Management team and Audit Committee and are published on the council's website.

### **Risk Appetite**

In January 2016 the council's risk management team began work with Zurich Municipal to develop and expand the council's risk appetite statement and categories. A risk exposure vs risk appetite workshop is scheduled to take place with senior officers, Mayors Advisory Board, Overview and Scrutiny Committee and Audit Committee. The results will be analysed and used to form a refreshed risk appetite statement.

## **4. Annual Risk Management Report 2015/16**

4.1 The attached report sets out in some detail the following:

- a) The corporate risk process; and
- b) The current corporate risks.

## **5. Reasons for the Decisions**

5.1 The report is brought annually to provide the Committee with an oversight of the authority's processes to facilitate the identification and management of its significant business risks.

## **6. Details of Report**

6.1 The Audit Committee requires the Head of Audit and Risk Management to provide an annual report on the effectiveness of the process deployed to

identify, assess, prioritise and mitigate the key risks which could affect the overall achievement of service objectives.

## **7. Comments of the Chief Finance Officer**

- 7.1 There are no specific comments arising from the recommendations in this report.

## **8. Legal Comments**

- 8.1 The Council has a duty 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 by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 8.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **9. One Tower Hamlets Considerations**

- 9.1 There are no specific one Tower Hamlets considerations arising from the recommendations in this report.

## **10. Best Value (BV) Implications**

- 10.1 The Council operates a risk management framework governed by a risk management policy to allow risk to be considered using a consistent model. The risk management cycle consists of the key steps for effective risk management which enables the Council to meet its best value duty to secure continuous improvement with regard to economy, efficiency and effectiveness.

## **11. Sustainable Action for a Greener Environment**

- 11.1 There are no specific proposals in the report contributing to a sustainable environmental action for a greener environment.

## **12. Risk Management Implications**

- 12.1 The report sets out arrangements for mitigating risks to the Council and actions taken to treat and eliminate identified risks.

## **13. Crime and Disorder Reduction Implications**

- 13.1 There are no specific crime and disorder reduction implications arising from this report.
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## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- None

### **Appendices**

- Appendix 1 Corporate Risk Management Policy Statement
- Appendix 2 Corporate risk register
- Appendix 3 Risk Management scoring matrix

### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of “Background Papers” used in the preparation of this report**

List any background documents not already in the public domain including officer contact information.

- None

### **Officer contact details for documents:**

- N/A

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# **Annual Risk Management Report 2016/17**

Minesh Jani,  
Head of Audit and Risk Management

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Appendix 1: Corporate Risk Management Policy Statement

Appendix 2: Corporate Risk Register

Appendix 3: Risk Management scoring matrix

## **1.0 Introduction**

1.1 The Council's ongoing risk and assurance aims are:

- To provide Members and Senior Officers an understanding of the key risks facing the Council and its community, and to show how these risks are being mitigated.
- To implement and maintain a fluid process for the everyday management of risks relevant to our objectives, outcomes, services and assets.
- To align reporting mechanisms for finance, risk, audit and performance providing members and senior officers triangulated risk and assurance profiles.
- To continue to meet the requirements of our external auditor and compliance providers.

## **2.0 Risk Management Team**

2.1 The Risk Management team comprises of Internal Audit, Fraud, Insurance and the Risk Management services. The team is led by the Head of Audit and Risk Management. The following section focuses on the Risk Management service this is delivered by the Head of the team and the Strategic Risk Adviser. It highlights the aims of the team and the services that underpin these objectives.

### **The Risk Management team aim's and services**

2.2 The Risk Management Team has the following targets:

- A.** ensuring the consistent use of risk management and ownership of risk at all levels;
- B.** building and maintaining a risk aware culture within the council, including appropriate education and training;
- C.** developing, implementing and reviewing the risk management framework and risk management processes;

- D. developing competence and maturity in risk management;
- E. linking with the other functions within and beyond the Risk Management team that advise on specific aspects of risk management (e.g. insurance, health and safety, business continuity, civil contingencies, occupational health, internal audit) ;
- F. Reporting, escalating and communicating risk issues to key stakeholders.

2.3 In order to meet these aims the team delivers the following services:

- Management and coordination of the corporate risk management process which is part of the council's corporate governance framework.
- Provision of professional risk management support on a range of corporate and directorate projects. This includes, where appropriate, attendance at management meetings, risk interventions such as the production of risk strategies and process guides, risk identification and control workshops, access and training to the council's Risk Management Information System (JCAD CORE).
- Preparation and publication of risk information on TH Net.
- Maintenance and development of the Risk Management Information System, known as JCADCORE.
- Provision of risk training including members, and senior managers, new managers and staff as well as regular training opportunities on JCAD CORE.

2.4 Section 3 below provides information on the corporate risk process including the council's corporate risks.

Sections 4 to 7 below provide an update on the team's work during the year and aligned to the above services it provides.

### **3.0 Corporate Risk Management Process**

- 3.1 The approach to managing risk is outlined in the Council's Risk Management Policy Statement (Appendix 1). The Statement encourages innovation and creative approaches to service delivery whilst requiring careful consideration of the risks involved and taking appropriate measures to manage them. The Corporate Risk Management process is aimed at identifying, assessing, prioritising and mitigating the significant risks that could impact on the delivery of the council's objectives (i.e. corporate risks). This process is also aligned with the council's team planning arrangements. Risks are prioritised for reporting in accordance to the scoring methodology in the risk management scoring matrix.
- 3.2 Corporate risks are those concerned with ensuring overall success of Council objectives, and the vitality and viability of the organisation. Materialisation of such risks can have a number of consequences, for example they could significantly affect the reputation of the Council, or present significant financial costs. Risks are identified and assessed by impact and likelihood on an ongoing basis across all Directorates. Guidance has been produced to help Risk Champions (see 3.4 below) and their directorates identify corporate risks from their service level assessments.
- 3.3 The review of both corporate and directorate risk is undertaken on a monthly basis by the Risk Champions Group. A process is in place to aid all directorates capture key risks and assess their significance. The methodology adopted by the authority (the UK Government's Management of Risk approach) is used to assess and prioritise key risks and to focus attention on those risks that require attention. Significant risks are examined at directorate level and any risk that remains significant after existing controls are taken into account (residual risk) are reported quarterly to the Corporate Management Team (CMT) so that they can be considered further.

#### **Risk Champions Group**

- 3.4 The Risk Champions Group is a key part of the council's corporate risk process. The Group is chaired by the Corporate Resources Director and its members comprise senior officers from each of the directorates. The group meets monthly and its primary purpose is to ensure that there is appropriate scrutiny of risks that have been identified by directorates and recommended for elevation to the corporate risk register. It also reviews and scrutinises directorate risks.

- 3.5 The role of a Risk Champion is set out in the group's terms of reference and includes the following activities:
- Update and maintain directorate risks on JCAD CORE every quarter;
  - Maintain close liaison on risk and risk dynamics with individual service heads and DMT collectively
  - Challenge officers in their directorate in their assessment of risk and seek explanations over the proposed actions to manage the risk;
  - Build a risk-aware culture within their directorate and disseminate good risk Management practices;
  - Provide advice and assistance as required;
  - Obtain and update on planned actions from appropriate service heads for Reporting to CMT; and
  - Bring significant risks to the attention of the CMT.
- 3.6 Once the group have scrutinised, reviewed and updated the corporate risks the Risk Management team prepare a quarterly Risk Management update report for CMT and subsequently to Mayor's Advisory Board (MAB).
- 3.7 Corporate risk owners continue to be invited to discuss their risk(s) with the group to get a better understanding on how well the risk is being managed. It may then make recommendations to the risk owner for suggested improvements to the controls.

### **Corporate Risk Register**

- 3.8 Risks that feature on the corporate risk register have been identified by the corporate management team and also include risks that have met the corporate risk criteria and escalated by each directorate.
- 3.9 The current corporate risk register (as at 31/08/16) identifies 10 corporate risks. The definition of each of these risk ratings is set out in Appendix 3.

	Risk Scores						
Directorate	4	8	10	12	15	20	Grand Total
ASD	0	0	0	0	1	0	1
CLC	0	0	0	1	0	0	1
CSD	0	0	0	0	2	0	2
D&R	0	0	0	0	0	1	1
LPG	0	0	0	2	1	0	3
Resources	0	0	0	0	1	1	1
<b>Grand Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>5</b>	<b>1</b>	<b>10</b>

Table 1. The number of risks within each directorate by risk score.

Key: **ASD** – Adults Services directorate  
**CLC** – Communities Localities Culture directorate  
**CSD** – Children’s Services directorate  
**D&R** – Development and Renewal directorate  
**LPG** – Law, Probity and Governance directorate  
**RESOURCES** – Resources directorate

Compared with the same period in 2015, the number of corporate risks decreased to the present 10. At the July CMT Quarter 1 review the following updates were agreed;

Risk	Current Risk Rating	Risk Description	Update
DR0029 (Development & Renewal)	20	Council is unable to identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019	To be retained and kept under review with regular update from project team.
REV0007 (Resources)	20	Impact on local income from appeals on the new local rating effective from 1/4/17.	To be retained and kept under review.
CSDR0002 (Children’s)	15	Council’s inability to meet demand for school places.	To be retained and kept under review.
ASD0015	15	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the	Corporate Management team (CMT) has instructed the Adults and Children’s Directorate Management

(Adult's)		council or a partner agency.	Teams to review risk and ensure the current scoring is appropriate as CMT required a better analysis of the likelihood score of three.
CSD0016  (Children's)	15	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency	
LPGCOM0003  (Law, Probity & Governance)	12	Failure to effectively manage the reputation of the Council	CMT was of the opinion that reputational risk to the Council could arise from all corporate risks and therefore formed part of the non-compliance with corporate governance procedures risk (LPGLS0001) and should be incorporated under that risk. It was agreed this risk be withdrawn from the corporate risk register.
RSB0019 (Corporate Resources)	15	Maintaining and strengthen financial viability/balance in 2016/17 to 2017/18.	Mitigating controls should include actions from the medium term financial plan.
CLSCEI0008  (Communities, Localities & Leisure)	12	There is a risk that, should a major incident take place affecting council services, there may be a failure to implement an effective response.	Update to be provided by the civil contingencies board.
LPGLS0001 (Law, Probity & Governance)	12	Non-compliance with corporate governance procedures	To be retained and kept under review.
LPGSE0001 (Law, Probity & Governance)	12	Failure to achieve community cohesion and radicalisation of young people and gangs.	Risk to be reviewed in light of Brexit.

Table 2 – Corporate Risk register summary

#### 4.0 Risk Management Support and Interventions

4.1 An important role of the Risk Management team is to assist teams/services in using a Risk Management approach to help them deliver operational or project objectives. During the reporting period risk management has provided support to a number of areas within the council. Support can take various forms

including the provision of advice and guidance as well as setting up risk processes and training.

## **5.0 Preparation and Publication of Risk Management Information**

5.1 The Risk Management pages on THnet includes information and tools on managing risks which are updated regularly. Over the period more documents have been added or revised:

- A quick reference guide to Risk Management (a user friendly two page guide)
- Further guidance on how to use the JCAD CORE Risk system
- Risk management guidance for managers

## **6.0 Risk Management Training**

6.1 Risk Management training is essential if managers and staff are to understand the benefits of this approach and use it to help make effective decisions and achieve directorate/corporate objectives.

### **Business Risk Management training staff**

6.2 A new timetable is now in place for training commencing in September 2016. This is starting with targeted training for senior managers/starters in the Adults and Children's Services directorates. This will be followed by training in all directorates.

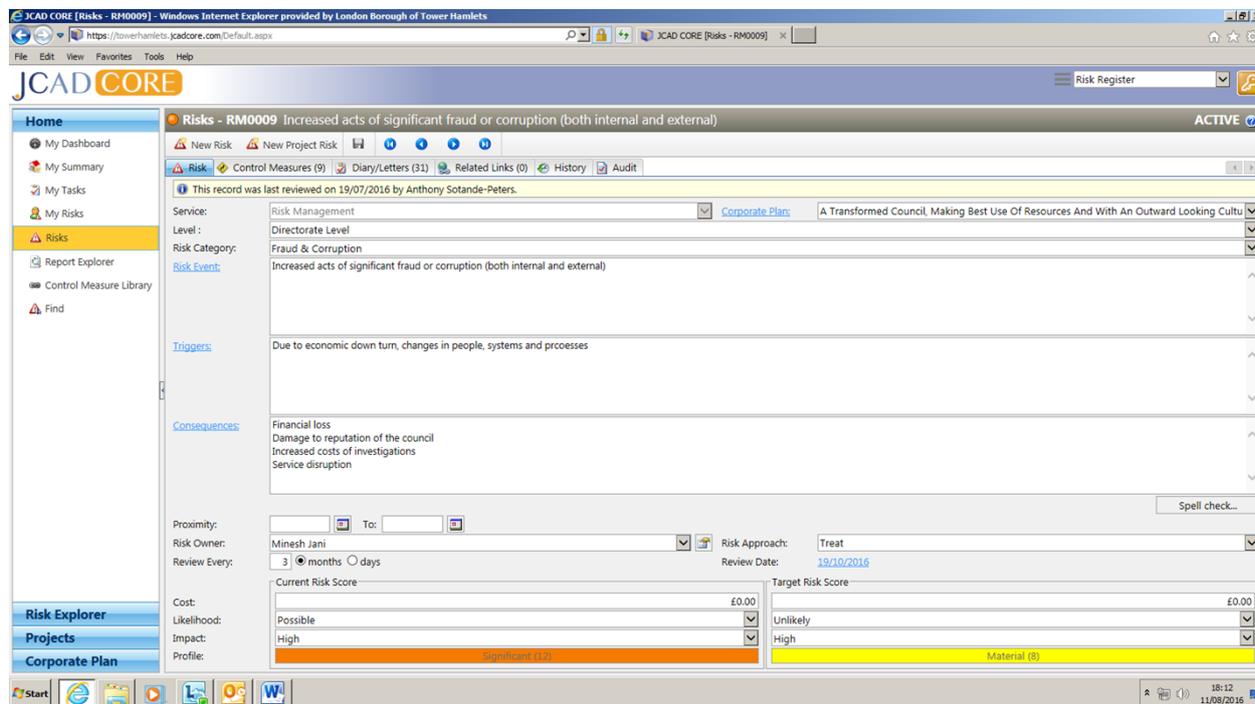
### **Senior Management Risk Management training**

6.3 Following on from the Corporate risk register refresh workshop conducted by Zurich Municipal Risk Consultancy, further workshops and training will be conducted with directorate management teams.

### **E-Learning**

6.7 The Council's risk management system JCADCORE contains all recorded risks from across the Council. Information from the risk managements system is used to create reports for management teams and members. An ELearning course has been developed to help train new users of the system as well as

provide a refresher for existing users. Pictured below is a screen shot showing part of the E-Learning module.



## Member Risk Management awareness

6.8 A Risk Management and Anti fraud awareness session is to be implemented as standard training for members. This is now included in the member development programme.

## 7.0 Promotion of Risk Management

7.1 This section highlights the promotional Risk Management activity which has taken place during the reporting period.

## Risk Talks

7.2 Risk talks are regular, usually monthly, lunch and learn sessions and were initiated in May 2012. Their purpose being to bring life to Risk Management through the use of case studies, research, sharing best practice and updates all highlighting the importance and benefits of managing risk. The talks are advertised on the THnet as well as targeted invitations being sent to officers. There is usually a mixed audience of senior managers, managers and staff.

7.3 A programme of further risks talks featuring internal and external speakers commenced in January 2016.

## 8.0 Risk Management performance

8.1 This section provides evidence of the overall council performance of its formal Risk Management arrangements. Two areas are highlighted. The first is the council's Annual governance statement and also the result of the council's most recent participation in the Alarm/CIPFA Risk Management benchmarking exercise in 2013. The evidence suggests that the council has processes in place which continue to improve.

The Council's internal Audit service conducted an audit examining the systems in place for risk management across all Directorates in late 2014 and early 2015. Areas of good practice were identified during the audit, however they were all given substantial assurance (substantial assurance means while there is basically a sound system there are weaknesses which put some of the control objectives at risk and from testing there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk).

An action plan is in place to address weaknesses found in risk management audit which includes further training on risk identification process within services and on the quality of controls measures and progress/updates.

### **The council's Annual Governance Statement**

8.2 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 responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, this includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Mayor in Cabinet and the Head of Paid Service and was most recently endorsed in June 2014.

The **2015/16** Annual Governance Statement Report noted the following comments regarding the Risk Management arrangements.

“The Authority has a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The principles of risk management are embedded in the Council’s decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the least risky option, particularly where the potential benefits to the community warrant the acceptance of a higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments. Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Management Team. Directorate Risk Champions oversee the continued development of the Council’s approach to risk management.”

### **Benchmarking risk management**

8.3 To assess and compare our “risk management health” with other authorities the Council participates in CIPFA benchmarking exercise. A summary of our performance from our most recent participation is provided below:

8.4

<b>Enablers</b>	Leadership & Management	Awareness	Happening	Working	Embedded & Integrated	Driving
	Policy & Strategy	Awareness	Happening	Working	Embedded & Integrated	Driving
	People	Awareness	Happening	Working	Embedded & Integrated	Driving
	Partnerships & Resources	Awareness	Happening	Working	Embedded & Integrated	Driving
	Processes	Awareness	Happening	Working	Embedded & Integrated	Driving
<b>Results</b>	Risk Handling & Assurance	Awareness	Happening	Working	Embedded & Integrated	Driving
	Outcomes & Delivery	Awareness	Happening	Working	Embedded & Integrated	Driving

**Level Guide:**

Awareness	<20%
Happening	20 - 45%
Working	45 - 70%
Embedded & Integrated	70 - 85%
Driving	85%+

Table 3- LBTH Summary of Risk Management Benchmarking results

8.5 The five key risk management enablers were assessed as “working” (3) and embedded & integrated” (2). Our aspiration is to move all ratings to the “driving” category and work continues on these improvement areas.

8.6 **Risk Numbers**

At the end of August there are 302 identified active risks on the Council’s risk register. To ensure risk management process remains effective and aligned to organisational objectives, this is reviewed quarterly by the risk team.

9.0 **Risk Management Action plan 2016/17**

9.1 The Risk Management team plan includes a number of actions to address some of the points above and made elsewhere in this paper:

- The council's Risk Management policy and manager's guide will be reviewed and revised.
- Risks will be more closely aligned to service and business objectives.
- Additional Risk Management training for managers is being offered together with a refresher for senior managers.
- Risk Talks will continue with regular features in TH Now.
- Risk Management protocol will be refreshed to provide guidance and further assurance on the application of Risk Management within directorates, with particular emphasis on identification of key risks, and what should be included on the risk management information system (JCADCORE mainly at service levels), and quality of the controls measures and progress/updates.

### **Risk Appetite**

“By defining its risk appetite, an organisation can arrive at an appropriate balance between uncontrolled innovation and excessive caution”

The Council regularly reviews and updates its corporate risk management arrangements including the risk management policy, risk management strategy and statement of risk appetite. The risk management team is currently working with Zurich Municipal to develop and expand the council's appetite statement and categories.

A series of workshops will be held with senior officers and cabinet members with the results used to form a risk appetite statement and methodology. We expect to examine current risk exposure vs risk appetite.



## **LONDON BOROUGH OF TOWER HAMLETS'** **RISK MANAGEMENT POLICY STATEMENT**

London Borough of Tower Hamlets is aware that risks will always arise from its various duties and functions. However, the Council recognises that it has a responsibility to manage business risks and opportunities in a structured manner in order to achieve its corporate objectives and enhance the value of services it provides to the community.

In pursuit of this aim the Council has adopted a risk management strategy that captures the following key objectives:

- Enable corporate, strategic, programme and partnership objectives to be achieved in the optimum way by controlling risks and exploiting opportunities which could impact on the Council's success;
- The Council recognises that it has a responsibility to manage risks through a focused approach that includes risk taking in support of innovation to add value to service delivery;
- Risk management is seen as an integral element of the Council's culture.

The Council aims to achieve the above objectives by:

- Establishing clear roles, responsibilities and reporting lines for risk management;
- Providing Members, the Corporate Management Team and the residents of the borough necessary assurance that the Council is actively managing its risks of not achieving the key corporate priorities to deliver value to the community.
- Providing opportunities for shared learning and working practices across the Council and its strategic partners.
- Monitoring arrangements on an on-going basis.

### **APPETITE FOR RISK**

The Council seeks to minimise unnecessary risk and manage residual risk commensurate with its status as a public body. However, the Council will positively decide to take risks in pursuit of its ambitions for its community where it has sufficient assurance that:

1. The risks have been properly identified and assessed;
2. The risks will be appropriately managed, including the taking of mitigating actions and the regular review of risk;
3. The potential benefits accruing to the community justify the level of risk to be taken.

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## Detailed Risk Report (incl Control Measure Target Date)

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
DR0029	<p>Council is unable to identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019</p> <p>Managed and monitored as part of the Civic Centre Project Board Strategic Risk Register which includes detailed risk mitigations and controls</p> <p>Reported to the Project Board, the Council's Major Projects Board, CMT fortnightly and briefings to the Mayor.</p>	Detailed in Civic Centre Project Strategic Risk Register	Detailed in Civic Centre Project Strategic Risk Register	<p>Present a new report to November Cabinet (as per Mayor in Cabinet decision on 280715 that the original decision be withdrawn)</p> <p>x</p> <p>Explore option of negotiating an extension to Mulberry Place lease pending delivery of permanent Town Hall solution</p> <p>Current lease expires June 2020</p> <p>Action outcomes of the Mayoral briefings on the Civic Centre Project</p> <p>x</p> <p>Obtain Cabinet approval for officer's recommendations</p> <p>Civic Centre Report</p>	4	5	20	3	4	12	Aman Dalvi	<p>A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture</p>

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
REV0007	<p>Impact on local income from appeals on the new local rating effective from 1/4/17.</p> <p>On the 1/4/17 all business premises will have a new rateable value to reflect a more up to date economic valuation of their premises.</p> <p>All ratepayers have the right to appeal against their valuation and at the beginning of any new valuation list there is always a dramatic increase in the number of appeals by ratepayers and their agents.</p> <p>Traditionally the government sets the new multiplier higher in the first year of a revaluation to take into account the losses of income due to these appeals.</p> <p>If the multiplier is set too low, then LBTH will suffer losses of income as appeals are settled and reductions in RV are achieved.</p>	<p>The multiplier for 2017/2018 not being set high enough to take into account losses due to appeals on the new local rating list effective from 1/4/17.</p>	<p>Loss of revenue generated from Business Rates.</p> <p>Impact of revenue loss on provision of services.</p>		5	4	20	<p>Draft new values available September 2017 when estimates can be made on income levels and value of appeals.</p> <p><b>Roger Jones</b></p> <p><b><u>Required Control Measure</u></b></p> <p><b><u>Target Date:</u></b> <b>07/10/2017</b></p>	5	2	10	Roger Jones	<p>A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture</p>		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	There is a failure of one or more of the controls which fails to identify the degree of risk to a vulnerable adult. Poor practice and inadequate management oversight. Failure of quality control systems. Service user fails to work to agreed partnership / agency arrangements. Poor communication and partnership work. Poor resourcing of service areas against increased demand. Local authority contracted out service do not have sufficiently robust safeguarding arrangements.	Harm to an individual.  Reputational damage to the Council.  Potential for legal proceedings against the council leading to financial loss.  Loss of confidence in safeguarding capability.	Revised safeguarding procedures introduced from care act implemented. Robust safeguarding procedures in place. Oversight through management reporting Social workers have 1:1 supervision monthly on thier casework including safeguarding cases. The PSMT meet monthly to review and monitor Adult Safeguarding casework, partuculary serrous cases and develop and implement action plans and lessons learnt. Information campaigns to raise awareness of safeguarding oversight from safeguarding adult's board A sub group of the Safeboarding board leads on publicity and promotion of safeguarding Safeguarding issues as part of contract management procedures  Target operating module as part of the care act implemented. This includes key worker role assigned. Signs of safety framework implemented. This framework helps identify the risks in a strategic manner. CQC care commission embargo list used. This list is available from the CQC highlighting all providers where the CQC has raised concerns.	3	5	15	4 year (2015 – 2019) adults board strategy  The actions within the SAB strategy aim to mitigate the risks associated with safeguarding. <b>Cath Scholefield</b>  <b><u>Required Control Measure</u></b> <b>Target Date:</b> <b>30/06/2016</b>  Developing a strategic approach to reviewing and analysing data in a systematic way.  The Council and its partners have a number of controls to monitor and safeguard vulnerable adults including data from a variety of sources. The proposed control seeks to use this from a structured analysis to help identify areas of risk.  Commissioning and Health development of a systematic approach to monitoring the quality and safety of external and internal provision is underway, links with wider quality monitoring and the adults QAF are being firmed up.  <b>Karen Sugars</b>  <b><u>Required Control Measure</u></b> <b>Target Date:</b> <b>29/07/2016</b>	2	5	10	Luke Addams	Creating Opportunity By Supporting Aspiration And Tackling Poverty		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>Failed visit policy and procedures in place.</p> <p>Introduction of safeguarding Star Chamber for front line teams</p> <p>Decision on discharge policy in consultation with Bart's</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
CSD0016	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.	There is a failure of one or more the controls which fails to identify the degree of risk to a child. The common failures are: poor practice and inadequate management oversight; failure of quality control systems; service user fails to work to agreed partnership / agency arrangements; Poor communication and partnership work; Poor resourcing of service areas against increased demand which impacts on quality of decision-making; Local authority contracted out service do not have sufficiently robust safeguarding arrangements	<p>Harm to an individual</p> <p>Poorer than expected outcomes for a child.</p> <p>Poor audit/review findings</p> <p>Reputational damage to the council.</p> <p>Loss of experienced professional staff.</p> <p>Potential for legal proceedings against the council leading to financial loss</p> <p>Loss of confidence in safeguarding capability across the council, partnership and wider.</p>	<p>Adherence to statutory government guidance, policies and procedures laid down by the council and LSCB / SAB</p> <p>Local Safeguarding Childrens Board</p> <p>Statutory government guidance,polices and procedures in place.</p> <p>Management oversight including supervision is in place.</p> <p>Quality Assurance framework to check and audit various areas is in place.</p> <p>Quality assurance systems including case audits, LSCB and SAB sub-groups.</p> <p>There is a new approach being taken to multiagency audits via the LSCB sub group and CSC are reviewing their QA framework with a view to achieve less process, more assurance and better feedback.</p> <p>There is an active internal audit programme that does pick up key areas of risk and challenge within safeguarding. The effectiveness of this system is a work in progress.</p> <p>Effective working relations and swift communication across partnership agencies ....</p> <p>Effective working relations and swift communication across partnership agencies that is held at different levels of Children's services.</p> <p>LSCB has an executive board for Directors and Chief Executive Officer level across the partnership.</p>	3	5	15	2	5	10	Debbie Jones	<p>Creating Opportunity By Supporting Aspiration And Tackling Poverty</p>

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>LSCB and LBTH CS has performance management and QA systems in place.</p> <p>This provide evidence and assurance to safeguarding board and partners that service is being delivered to expected standards, there are clear (proxy) indicators and where it is not so remedial action can be taken.</p> <p>Serious case review/learning process in place</p> <p>There has been a refreshed case alert process disseminated within Children Social Care, which feeds into the LSCB case review group.</p> <p>Any ongoing SCR work is held at service head level and a communication flow is done to the CMT Corporate Safeguarding Group, chaired by Chief Executive Officer.</p> <p>Safeguarding training programme in place covering induction and workforce development programme</p> <p>Staff complete the Health and Care professions Council (HPC) re-registration process every 3 years</p> <p>And there is a process to pick up delays/failures in registration so action can be taken.</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
Page 87				<p>Corporate Accountability Framework</p> <p>This describes key roles and has a number of expected activities that gave the authority assurance or identifies problem areas. Highlight is the CMT safeguarding monthly meeting chaired by the CEO in which key safeguarding risks are discussed and actioned. This framework also enables the appointment and management of an independent LSCB chair.</p> <p>Review arrangements of looked after children and child protection is led by the child protection review service.</p> <p>This is a critical challenge role to children's social workers. There is on going work to improve the oversight and authoritative advice role.</p> <p>Robust commissioning that includes safeguarding checks of providers</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
CSDR0002	Councils inability to meet demand for school places	<p>Actual roll &gt; projected roll exceeds available capacity</p> <p>Higher than anticipated birth rate / inward migration</p> <p>Insufficient capacity created in time to meet need</p> <p>Decisions not taken in time to implement projects to provide places</p> <p>'Scheming" Powers: Schedule 1 of the 2010 Academies Act gives the Secretary of State powers to transfer a school property to an academy and/or free school</p>	<p>Failure to have sufficient statutory school places to meet local need, children out of school and LA failing to meet duty</p> <p>Additional transport costs; lack of parental engagement as children not at local school</p> <p>Insufficient capacity for school places realised in existing estate.</p> <p>Additional costs incurred due to re phasing of projects if unanticipated delays in decision making.</p>	<p>Sites for new secondary schools secured following Examination in Public</p> <p>Annual review of capital programme schemes and available resources (grant, s. 106 &amp; CIL</p> <p>Service Head - Resources chairs regular meeting to review short/medium and long term position</p> <p>Monitoring of projected pupil numbers V roll numbers and planned capacity on-going cycle</p> <p>Planning sufficient expansion options to provide additional capacity required</p> <p>Engagement of GLA to provide projections to strengthen reliance on LBTH model - Further review to provide annual projections</p> <p>GLA continue to provide roll projections; LBTH supply GLA with housing development data</p> <p>Revised governance arrangements of the Pupil Place Planning group to report directly to the Corporate Asset and Capital Board</p> <p>Produce briefing on primary sites and accurate timely updates. Timing of further reports to be agreed. Programme of primary school site reviews commenced.</p>	3	5	15	<p>PPP Group to assess implications of 2016 projections, across primary and secondary estate</p> <p>Assessing financial implications (medium and long term) - financial implications continue to be under review</p> <p><b>Kate Bingham</b></p> <p><u>Required Control Measure</u> <b>Target Date: 31/03/2017</b></p> <p>Continuing to engage Members and community, delivering annual report to Cabinet</p> <p><b>Pat Watson</b></p> <p><u>Required Control Measure</u> <b>Target Date: 30/09/2016</b></p> <p>Internal monitoring of programme (PPP meetings)</p> <p>PPP meetings held</p> <p><b>Pat Watson</b></p> <p><u>Required Control Measure</u> <b>Target Date: 31/03/2016</b></p> <p>Consider the outcomes of the current SEN Review and attempt to project the provision of SEN required across the borough</p> <p><b>Pat Watson</b></p> <p><u>Required Control Measure</u> <b>Target Date: 31/12/2016</b></p>	1	5	5	Kate Bingham	<p>Creating Opportunity By Supporting Aspiration And Tackling Poverty</p>		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>Need for places included in LBTH Best Value Plan</p> <p>In assessing surplus or underused sites for disposal, particular attention will be paid to ensuring that where school places can be achieved, these are highlighted and sites will be considered for new school and/or expansion provision. Sites for two new primary schools secured</p> <p>Cabinet approved 5 FE primary school places - May 2015</p>								
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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
LPGCOM003	Failure to effectively manage the reputation of the Council	Relationship with central government / increased scrutiny Potential for criticism from constituents Potential lack of clarity of political situation Lack of clear guidance on reputation / "brand" management Poor perception of Council following intervention from central government	Breakdown in relationships with key stakeholders Loss of key funding streams Community becomes fractured Impact upon service delivery Increasing demands on core officers Poor perception of the Borough Increased external scrutiny Continuation of intervention	Implementation and regular updating of best value improvement plan  Clear communication protocols in place for both proactive and reactive management of the Council's reputation.  Strategy laid out for how Service Heads communicate with third parties  Constitution in place that governs the actions and behaviours of members and officers.  Council code of conduct in place.  Communications strategy in place to proactively promote the Council's reputation.  Open and transparent decision making provisions in place. For example the filming of cabinet meetings.  Information Governance Group and FOI Board in place  Meetings with Commissioners / DCLG  Residents Survey  Governance Working Party	3	5	15	Implementation of the best value action plan Providing Regular updates <b>Will Tuckley</b> <b><u>Required Control Measure</u></b> <b>Target Date:</b> <b>31/03/2017</b>	2	5	10	Will Tuckley	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
RSB0019	Maintaining and strengthen financial viability/balance in 2016/17 to 2017/18	Reduction in government funding NHS integration – unfunded services transferred in through Public Health and Adult Social Care Changes in Government initiatives/priorities Potential inability to manage working capital effectively Increasing expectation of the Council aligned with increasing local need Implications of welfare reform agenda on council services and budgets CSR in Autum 2015 HRA changes Population growth	Future service cuts Inability to meet public expectation Increased pressure on delivery of statutory and priority services Unfunded base budget pressures/new burdens from government Failure to deliver community plan/strategic plan priorities.	Formal annual budget setting process and medium term financial plan  Continuous monitoring of Council's medium term financial plan in place  Monthly monitoring and management reporting of Council's financial position  Annual External Audit health check on financial processes including budgets and reporting  Programme Manager for Council Savings Plan in place.  Corporate Programme Board formed to monitor delivery of savings programme. Monitoring in progress. Develop and implement corporate approach to deliver and monitoring of Council savings plan and transformation plan  On-going advancement of linkages between the 30 year HRA Business Plan and Council service plans. Longer term financial and investment strategy Methodology for council transformation in place and ongoing Corporate Transformation Programme covering all directorates with a focus on delivering service improvements, efficiencies and savings	3	5	15	Implement savings programme/opportunities Longer term financial and investment strategy <b>Neville Murton</b> <b><u>Required Control Measure</u></b> <b>Target Date:</b> <b>30/06/2016</b>	2	4	8	Neville Murton	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
CLSCEI0008	There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response. (Corporate level risk)	Failure by Directorates to ensure that the Borough Major Emergency Plan (Part 3B) is kept up to date with Directorate information and procedures, and that staff are unaware of the EP process.	(1) Systemic failure of the Council to continue to operate during a crisis period as a consequence of a civil event or situation; (2) Resulting in a slower than expected management response causing increased disruption to key service delivery, inconvenience to service users and the stakeholders, adverse public criticism and additional costs to the Council.	<p>Business continuity plans kept up to date Business continuity plan updates remain outstanding from 3 Directorates – CX, Resources and ECSW, meaning the Council's corporate BC plan is out of date. Staff with extensive experience in dealing with incidents need to be in place Officers in the Civil Protection Unit have dealt with this type of incident on several occasions, and have gained quite extensive experience on dealing with this type of incident and the action that may be required to be taken.</p> <p>Any future restructure will need to ensure that key posts are retained within the organisation to continue to minimise this risk Borough Emergency Management Team to co-ordinate the Council's response on tactical matters. B. E. M. Team. 6 month review of EP plan with Directorate changes.</p> <p>Annual report to CMT</p> <p>Independently review the Borough Major Emergency Plan to ensure it is fit for purpose. complete Rollout a refresh training programme for senior managers and officers supporting the emergency plan. Complete</p>	4	3	12	<p>2016 June BC business impact assessment reviews by service areas</p> <p>2016 June BC plan update notification has been sent to directorates <b>Trevor Kennett</b></p> <p><b><u>Required Control Measure</u></b> <b>Target Date:</b> <b>30/06/2016</b></p> <p>Procurement of an IT system to manage BC plan update</p> <p>Drafting of a business case to procure an IT system to manage BC plan update and incident <b>Trevor Kennett</b></p> <p><b><u>Required Control Measure</u></b> <b>Target Date:</b></p>	2	2	4	David Tolley	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
LPGLS000 1	Non-compliance with corporate governance procedures	Poor understanding of governance processes / lack of clarity of processes Lack of awareness on areas such as conflict of interest and the Bribery Act Possible pressure from politicians on officers to deviate	Ineffective decision making Potential for reputation damage Poor council performance Failure to optimise opportunities Adverse media reporting Unlawfulness leading to ultra vires decision	Council Constitution in place  Annual Governance Statement process reporting to the Audit Committee.  Regular meetings of the Statutory Officers Co-ordination Group. Ongoing. Arrangements are in place for the regular reporting of significant governance matters via the Head of Audit and Risk Mangement  Financial regulations, Financial and Procurement Procedures have been updated and further clarification of staff, manager and senior officer responsibilities have been incorporated.  The post of 'financial compliance manager' has also been created through the restructure of finance and the role of that post is to monitor and report to the section 151 officer on non compliance in key areas such as use of purchase cards, petty cash, budget monitoring etc... Member training provided on Code of Conduct.  Training for members and independent co-opted members of Standards Advisory Committee on Standards Framework was held on 14/07/15.	3	4	12	2	4	8	Graham White	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>Mandatory training programme in place for members of the Planning, Licensing and Grants Scrutiny Committees.</p> <p>Training provided post 2015 Elections and further training delivered due to changes in membership of said Committees.</p> <p>Member Induction Programme took place June - July 2014. (After the Local, Mayor and Euro elections).</p> <p>Information Governance Group and FOI Board in place</p> <p>E-learning anti fraud and bribery training programme including Bribery Act Provisions</p> <p>The e-learning and the accompanying test provide staff an opportunity to be appraised of the bribery regulations and more generally, of the anti fraud arrangements.</p> <p>O&amp;S Grants Scrutiny Sub-committee responsible for pre-decision scrutiny of grants matters</p> <p>Discharge of Executive decisions by the Commissioners to ensure that legal requirements are met.</p>				<p><b>Graham White</b></p> <p><b><u>Required Control Measure</u></b></p> <p><b>Target Date:</b> <b>31/10/2016</b></p> <p>Refresh Officers' Scheme of Delegation</p> <p><b>Graham White</b></p> <p><b><u>Required Control Measure</u></b></p> <p><b>Target Date:</b> <b>31/10/2016</b></p> <p>Progression to the Mayor taking executive decisions in the absence of the Commissioners</p> <p><b>Will Tuckley</b></p> <p><b><u>Required Control Measure</u></b></p> <p><b>Target Date:</b> <b>03/04/2017</b></p>				

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
LPGSE000 1	Failure to achieve community cohesion Radicalisation of young people and gangs	Extremist incident - local,national or international Failure to engage with stakeholders in responding to extremism Failure to liaise with police to address extremism Increasing polarisation between communities in the borough Council funding decision exacerbating community tension	Rising crime and unrest within the Borough Damage to property and harm to persons Reputation damage Increase in social deprivation More segmented society	Formal multi-agency approach in place Formal multi-agency approach in place (including Council, Police, Education, Housing Organisations, Voluntary Sector and Faith Organisations. Cohesion Promotion Programme e.g. No Place for Hate Forum and Events  Use of Community Cohesion Contingency Planning & Tension Monitoring Group Community Cohesion Contingency Planning & Tension Monitoring Group that complete cohesion impact assessment around key event Debrief programme in place for after key events/incidents.  Cohesion toolkit and impact assessment in place and used  Annual cohesion measured through residents' survey.  Home Office funded programme of activities including interventions with young people.  Multi-agency SAP Panel in place to review case referrals of individuals of concern within the Borough. Multi-agency SAP Panel in place to review case referrals of individuals of concern within the Borough. (Close liaison with Policy and SO15). On-going development of the "Prevent Programme" to include work in schools. Officer appointed to lead this work from May 2014.	3	4	12	<b><u>Required Control Measure</u></b> <b><u>Target Date:</u></b>			2	4	8	Andy Bamber	Creating And Maintaining A Vibrant, Successful Place

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
Page 96				Competing prevent agenda action plan funded by Home Office								



## London Borough of Tower Hamlets – Risk Scoring Matrix

### What is a risk?

- A risk can be defined as “an event or set of events that could impact on the achievement of objectives” . A risk can have a negative or a positive impact.
- A risk should be assessed against an objective.
- A risk is measured in terms of likelihood and impact. (see Tables below)
- It is important to note that if the likelihood of the event occurring is *less than* 100%, i.e. it is not a certainty
- A risk may never 100% mitigated, but its risk score may reduce to an acceptable level
- A risk can be dealt with in 4 ways – Treat (mitigate), Tolerate (accept), Transfer to a third party or Terminate (avoid).

### How to use the Risk Scoring Matrix

To assess a risk , first consider the likelihood of that risk occurring. Consult the Likelihood Classification Table below and choose the most appropriate description e.g. **Possible** ,which has a score of 3. Next, consider the impact of that risk occurring using the Impact Classification Table. There may be several impacts of a risk e.g. service disruption and financial loss, choose the highest rated impact e.g. **High** which has a score of 4. It is essential to take into account, when scoring, any existing measures that either reduce the likelihood or/and impact of the risk occurring. Using the Risk Matrix below a likelihood score of **Possible (3)** and an Impact of **High(4)** gives a risk score of **12 (Amber)**. The Risk Definition table indicates the meaning of that score in terms of management action required.

#### Likelihood Classification

Score	Likelihood Description	Definition ( % = Chance of happening)
5	Almost certain	Expected to occur in most circumstances (>80%)
4	Likely	Will probably occur in most circumstances (51% - 80%)
3	Possible	Fairly likely to occur (21% - 50%)
2	Unlikely	Could occur at some point (6% - 20%)
1	Rare	Extremely unlikely or virtually impossible (<5%)

#### Impact Classification

Impact Type / Impact description	Service disruption	Financial Loss	Reputation	Performance	Health and Safety
<b>Very High 5</b>	Total failure of service for a significant period	Financial loss in excess of £1,000,001	National adverse media coverage for more than 3 days. Possible resignation of chief/senior officer's)	Failure to achieve a strategic theme or major corporate objective in the Council's strategic plan	Fatality of employee. Service user or other stakeholder
<b>High 4</b>	Significant service disruption	Financial Loss between £500k to £1,000,000	Adverse national media coverage	Failure to achieve one or more strategic plan objectives	Serious injury/permanent disablement of one or more employees/service users
<b>Medium 3</b>	Disruption to service – causing some concern	Financial loss between £51k - £500k	Adverse local media coverage/significant no of service-user complaints	Failure to achieve a service plan objective	Injury to staff/service user resulting in loss of working time
<b>Low 2</b>	Minor impact on service	Financial loss between £5k and 50k	Service user complaints contained with directorate	Failure to achieve several team plan objectives	Minor injury to service user/staff
<b>Negligible 1</b>	Annoyance but does not disrupt service	Financial loss under £5k	Isolated service user complaints	Failure to achieve unit level objective	Slight injury to an employee/service user

#### Risk Matrix

Likelihood						
Almost certain	5	5	10	15	20	25
Likely	4	4	8	12	16	20
Possible	3	3	6	9	12	15
Unlikely	2	2	4	6	8	10
Rare	1	1	2	3	4	5
		1	2	3	4	5
		Negligible	Low	Medium	High	V High

#### Risk Score definitions

<b>Red (Severe)</b>	Serious concern. Comprehensive Management action required immediately.
<b>Amber (Significant)</b>	Significant concern. Some immediate action required plus comprehensive action plans.
<b>Yellow (Material)</b>	Consequences of risk are of some concern although treating the risk will usually be through contingency planning. Risk to be kept under regular monitoring
<b>Green (Manageable)</b>	The risk is relatively low however risk should be monitored.

Impact

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<p><i>Non-Executive Report of the:</i>  <b>Audit Committee</b>          20th September 2016</p>	 <b>TOWER HAMLETS</b>
<p><b>Report of:</b> Zena Cooke - Corporate Director - Resources</p>	<p><b>Classification:</b>          Unrestricted</p>
<p><b>Draft Annual Governance Statement 2015/16</b></p>	

<b>Originating Officer(s)</b>	Minesh Jani and Bharat Mehta
<b>Wards affected</b>	All wards

## REASON FOR URGENCY

The reason the report was unavailable for public inspection within the standard timescales set out in the Authority’s constitution because the initial draft report needed to be updated to reflected management comments and audit findings following the preparation of the initial draft. It is important the audit committee has an up to date understanding of the internal controls environment and the planned management action to allow it to appraise the Council’s control environment.

The Chair of the Committee is satisfied that the report cannot be deferred to the next meeting on the 8<sup>th</sup> November 2016 as this would mean that that Committee will not be able to approve the draft Annual Governance Statement to meet the statutory deadline of 30 September. The findings arising from the quarterly assurance report and the annual risk report are also considered alongside the Annual Governance Statement.

## 1. Summary

- 1.1 This report sets out the framework for reviewing and reporting on the Council’s system on internal control and governance arrangements in line with regulation 4(2) of the Accounts and Audit Regulations 2015. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.
- 1.2 The output from the review is the Annual Governance Statement which forms part of the annual accounts and identifies areas of good governance and gaps in management of risks and control which may prevent the Council from achieving its desired outcomes.

## **2. Recommendation**

- 2.1 The Audit Committee is invited to consider the process and findings set out in paragraphs 4.1 – 6.2; and
- 2.2 Agree the Draft Annual Governance Statement for the financial year 2015/16 at Appendix 1.

## **3. Background**

- 3.1 The Accounts and Audit Regulations 2015 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2015 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.
- 3.2 The statement will be signed by the Chief Executive and the Mayor. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Chief Executive and the Mayor.
- 3.3 The statement needs to be signed by 30 September 2016, to meet the deadline for the publication of the accounts.

## **4. Reviewing the Internal Control Environment**

- 4.1 CIPFA guidance sets out a process for gathering assurance on the system of internal control (Appendix 2). This Assurance Framework is shown diagrammatically at Appendix 3. The key stages are:
  - Identify & review the internal control environment;
  - Obtain assurances on the effectiveness of those controls;
  - Evaluate those assurances and identify gaps in controls;
  - Plan actions to rectify those gaps; and
  - Draft the Annual Governance Statement.
- 4.2 The principal risks, controls and sources of assurance have been identified and considered by senior officers, which included a review of the control environment and issues raised in the 2014/15 and 2015/16 statements, the former being presented to the Audit Committee in March 2016.

## 5. Update on the Draft 2014/15 Annual Governance Statement

- 5.1 The draft 2014/15 AGS was presented to the Audit Committee for approval initially in July 2015 and subsequently in March 2016. The updated 2014/15 AGS will be formally signed off by the Chief Executive and the Mayor once the external audit of the 2014/15 financial statements is completed. Ordinarily, the 2014/15 AGS would have been signed off by September 2015.
- 5.2 The 2014/15 AGS raised thirteen significant governance issues. The current status of these issues is shown in the table below.

Significant Governance Issues raised in 2014/15 statement (March 2016)	Current Status (July 2016)
Payments to third sector organisations outside of the main grant process.	On-going, included in the 2015/16 statement. Internal investigations have resulted in the introduction of new structures, systems and process. Further investigations are continuing.
A comprehensive review of the management arrangements for the control and monitoring of grants.	On-going, included in the 2015/16 statement. A corporate team has been created to ensure management and control over grant giving, monitoring and reporting across the Council. It is anticipated all actions on the Best Value Improvement Plan will be completed by October 2016.
Strengthen controls over the disposal of assets.	On-going, included in the 2015/16 statement. Arrangements for disposal of assets have been enhanced following Cabinet approval of the Council's Asset Management strategy in Dec 2015. Further actions to strengthen governance arrangements as set out in the Best Value Improvement Plan will be completed by October 2016.
Publicity Expenditure Controls.	On-going, included in the 2015/16 statement. Further actions to strengthen governance arrangements as set out in the Best Value Improvement Plan will be completed by Oct 2016.
Suitable appointments to the three statutory officer roles.	Completed.
Update the constitution to	On-going, included in the 2015/16 statement. The

<b>Significant Governance Issues raised in 2014/15 statement (March 2016)</b>	<b>Current Status (July 2016)</b>
expand wording to clarify certain issues with the General Purposes Committee.	General Purposes Committee comprising cross party members is carrying out a review to strengthen the Council's governance arrangements.
Election and pre-election period.	Completed. The Best Value Improvement Plan has been delivered.
Enhance contract management and contract letting process.	On-going, included in the 2015/16 statement. Procurement procedures have been updated and rolled out to enhance arrangements for letting and contract managing contracts.
Governance Arrangements in Schools.	Completed. The most recent internal audit annual report highlights a significant reduction in schools assigned "Limited" or "Nil" assurance. Over 75% of the schools audited were assigned "Substantial" assurance.
Review, and where necessary, enhance arrangements around declarations of interests.	On-going. The governance arrangements for completing declarations of interests have been enhanced whereby all council officers are required to complete a return, including nil returns. The majority of officers have completed their returns and for those that remain outstanding the Council's senior managers have been tasked with ensuring everyone in their service completes their return by the end of September 2016.
Review Council's S106 arrangements.	On-going, included in the 2015/16 statement. An external audit firm was appointed to carry out a review and its findings have been reported to the Audit Committee in June 2016.
Strengthen Internal Controls for Mayoral Expenses.	Completed.
Governance of the Council.	Completed. A full report was presented to a full Council meeting in January 2015 including recommendations raised by external audit. The recommendations were endorsed and an action plan is in place to complete the actions. The individual actions are being progressed and will be reported to the audit committee in due course.

## **6. Annual Governance Statement – 2015/16**

6.1 The draft Annual Governance Statement is attached at Appendix 1.

6.2 The penultimate section of the 2015/16 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows: -

- Payments to third sector organisations outside of the main grant process;
- A comprehensive review of the management arrangements for the control and monitoring of grants;
- Strengthen controls over the disposal of assets;
- Publicity Expenditure Controls;
- Update the constitution to expand wording to clarify certain issues with the General Purposes Committee;
- Enhance contract management and contract letting process;
- Review, and where necessary, enhance arrangements around declarations of interests; and
- Review the Council's Section 106 arrangements.

## **7. Comments of the Chief Financial Officer**

7.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements as required by regulation 4(2) of the Accounts and Audit Regulations 2015. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.

7.2 The Chief Financial Officer comments are contained within the body of this report.

## **8. Legal Comments**

8.1 In respect of the 2015/16 Annual Governance Statement, the Council is required by regulation 4 of the Accounts and Audit Regulations 2015 to ensure that its financial management is adequate and effective and that it has 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.

- 8.2 The Accounts and Audit Regulations 2011 (as amended) will apply in respect of the 2014/15 Annual Governance Statement.
- 8.3 The Council is further required to conduct a review of the effectiveness of its system of internal control at least once a year. The review findings must be considered by the Council's Audit Committee and following the review the committee must approve an annual governance statement prepared in accordance with the proper practices in relation to internal control. The Audit Committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the Council's constitution. The subject report is intended to discharge the Council's obligations in this regard.
- 8.4 In relation to what constitutes "proper practices" it is appropriate for the Council to have regard to the relevant CIPFA code of practice. For both the 2014/15 and 2015/16 Annual Governance Statements, the Delivering Good Governance in Local Government: Framework (Addendum) published in December 2012 will apply.
- 8.5 In approving the annual governance statement, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. The committee may take the view that a sound system of internal control will support delivery of the Council's various programmes and objectives that are targeted at these matters.

## **9. One Tower Hamlets**

- 9.1 The maintenance of an effective system of internal control assists the Council to discharge its functions in accordance with its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

## **10. Risk Management Implications**

- 10.1 The review of the Council's governance arrangements has highlighted strategic risks that the authority is actively managing. The risk management framework is in place to ensure all strategic risks are reviewed and reported to the Corporate Management Team.

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

11.1 There are no specific SAGE implications.

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**Local Government Act, 1972 SECTION 100D (AS AMENDED)**  
**List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"	Contact :
<i>None</i>	<i>N/a</i>

## Draft Annual Governance Statement 2015/16

We (the Council) are required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement enables stakeholders to have assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2011.

This statement relates to the financial year 2015/16. The Annual Government Statement for 2014/15 was formally presented to the Audit Committee on 22nd March 2016. The governance issues raised in that statement have been reviewed as part of the review of effectiveness the Council's governance arrangements for 2015/16 and where relevant, captured in the 2015/16 statement.

### Background

On the 4<sup>th</sup> April 2014 the Department of Communities and Local Government (DCLG) appointed PricewaterhouseCoopers LLP (PwC) to carry out an inspection of compliance by the London Borough of Tower Hamlets with the requirements of Part 1 of the Local Government Act 1999 *'in relation to the Authority's functions in respect of governance, particularly in respect of the authority's functions under Section 151 of the Local Government Act 1972'* and as they relate to the following:

- The authority's payment of grants and connected decisions;
- Transfer of property to third parties;
- Spending and decisions in relation to publicity; and
- Processes and practices relating to entering of contracts.

PwC's final report was published by the DCLG on 4<sup>th</sup> November 2014. In their report, PwC reported the Authority was not achieving Best Value in the following areas:

- The authority's payments of grants and connected decisions;
- The transfer of property to third parties; and
- Spending and the decisions of the authority in relation to publicity.

In respect of processes and practices relating to entering of contacts, PwC reported the Authority was complying with its Best Value duty but highlighted areas where the Authority could improve.

The Secretary of State for Communities and Local Government (CLG) considered the PwC report and representations from the Authority and issued Directions on 17 December 2014. Further directions were issued on 6 May 2015 in respect of the appointment of statutory officers. More information about the directions issued by the Secretary of State for CLG to the Authority and the actions to comply are included within this statement.

Full details of the directions can be found at <https://www.gov.uk/government/news/secretary-of-state-sends-in-commissioners-to-tower-hamlets>.

In response, we were required to produce in total, seven best value improvement plans, including actions arising from the electoral court judgement in respect of the Mayoral election in May 2014, as detailed below: -

- Procurement Action Plan
- Grants Action Plan
- Property and Disposal Action Plan
- Communications Action Plan
- Organisational Culture Action Plan
- Recruitment of statutory officers
- Elections

We are co-operating fully with the Commissioners to ensure we comply with the directions issued by the Secretary of State for CLG and the matters raised in the PwC report, and address the issues raised as soon as possible.

We have established a Best Value Programme Review Board to monitor the progress towards implementation of the actions contained within the various improvement plans. The first public meeting of the Board was on 15 July 2015 and was chaired by the then Head of Paid Service. Subsequent quarterly meetings have been chaired by the Mayor.

We were required to respond to the Secretary of State for CLG within three months, by developing action plans that had to be agreed with the Commissioners. Further, the directions require, we provide six monthly reports to the Secretary of State for CLG. The first such report was submitted on 17 September 2015, details of which can be found at

[http://www.towerhamlets.gov.uk/News\\_events/News/september\\_2015/tower\\_hamlets\\_getting\\_back\\_on\\_a\\_spx](http://www.towerhamlets.gov.uk/News_events/News/september_2015/tower_hamlets_getting_back_on_a_spx). Following its submission, the Secretary of State for CLG welcomed the progress we had made.

Further, the Secretary of State for CLG allowed the directions raised on 6 May 2015 to lapse on 31 October 2015, in light of the progress the Authority had made and the assurances received from the Commissioners. The full response can be found at

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/472377/151023\\_-\\_Response\\_from\\_the\\_SoS\\_to\\_the\\_Mayor\\_of\\_Tower\\_Hamlets.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/472377/151023_-_Response_from_the_SoS_to_the_Mayor_of_Tower_Hamlets.pdf). More recently at the Best Value Programme Review Board meeting on 19 April, the direction relating to elections was also allowed to lapse.

We submitted our second six monthly progress update to the Secretary of State on 17<sup>th</sup> March 2016, confirming that over 80 per cent of the actions set out in the agreed Best Value Plan have already been delivered. Key achievements include:

- the introduction of a procurement transformation programme to ensure we are at the forefront of procurement best practice; improvements have also been made to procurement processes with tightened controls and spend analysis to reduce costs;
- the introduction of a voluntary and community sector strategy supporting a move from grant funding to a more commissioned service approach; in addition, a cross party group will now consider grant proposals before they are determined;
- development of a new communications strategy with a plan to deliver our publicity function; and
- improvement to the culture of the organisation: Elected members have worked effectively across party lines to develop a transparency communion; the mayor has introduced regular assemblies for residents to raise issues in public; we are actively working jointly with other London boroughs.

The progress report and the Commissioners response to this can be found at:

[http://www.towerhamlets.gov.uk/News\\_events/media\\_centre/Setting\\_the\\_record\\_straight/best\\_value\\_inspection\\_update.aspx](http://www.towerhamlets.gov.uk/News_events/media_centre/Setting_the_record_straight/best_value_inspection_update.aspx)

We continue to deliver on the agreed Best Value Action Plan and address the issues underlying the government's intervention. Performance will continue to be overseen by the Best Value Programme Board, which meets monthly. The progress made in recent months provides a firm foundation for further improvements to be evidenced and embedded prior to the Council's third update to the Secretary of State in September 2016.

## **1. Responsibility of the Council**

We are responsible for ensuring our 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. We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which our functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, we are responsible for putting in place proper arrangements for the governance of our affairs and facilitating the effective exercise of our functions.

We have approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how we comply with the code and also meet the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of the Annual Governance Statement.

## 2. What is Corporate Governance Framework?

The governance framework comprises the systems and processes, and culture and values, by which we direct and control our activities and through which, we account to, engage with and lead our community. The governance framework allows us to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage any such risks efficiently, effectively and economically.

Our governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2016 and up to the date of approval of the statement of accounts.

## 3. The Council's Governance Framework

Our governance arrangements aim to ensure that we set out and meet our objectives and responsibilities in a lawful, timely, open, inclusive and honest manner and that our use of public money and resources is safeguarded, properly accounted for and used economically, efficiently and effectively. The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

### 3.1 Vision and Priorities

Our vision is to improve the quality of life for everyone living and working in Tower Hamlets. This involves helping to create a thriving, achieving community in which people feel at ease with one another, have good learning and employment opportunities, experience a higher standard of living and good health, and enjoy a safe and an attractive environment together with a wide range of cultural and leisure opportunities.

We are part of the Tower Hamlets Partnership with a vision to 2020 which set out in the borough's Sustainable Community Strategy, known as the Community Plan<sup>1</sup>. The Community Plan has four main themes to make Tower Hamlets:

- **A Great Place to Live** - Tower Hamlets will be a place where people live in quality affordable housing, located in clean and safe neighbourhoods served by well connected and easy to access services and community facilities;
- **A Prosperous Community** - Tower Hamlets will be a place where everyone, regardless of their background and circumstances, has the aspiration and opportunity to achieve their full potential;
- **A Safe and Cohesive Community** - Tower Hamlets will be a safer place where people feel safe, get on better together and difference is not seen as a threat but a core strength of the borough; and

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<sup>1</sup> [http://www.towerhamlets.gov.uk/ignl/community\\_and\\_living/community\\_plan/community\\_plan.aspx](http://www.towerhamlets.gov.uk/ignl/community_and_living/community_plan/community_plan.aspx)

- **A Healthy and Supportive Community** - Tower Hamlets will be a place where people are supported to live healthier, more independent lives and the risk of harm and neglect to vulnerable children and adults is reduced.

Running through this vision is the core theme of “**One Tower Hamlets**” with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. Our Strategic Plan flows from the Community Plan and contains more detailed priorities and objectives for the Authority to deliver against. More information about our performance against the Plan and achievements in 2015/16 is available on the website [http://www.towerhamlets.gov.uk/lgnl/council\\_and\\_democracy/council\\_performance.aspx](http://www.towerhamlets.gov.uk/lgnl/council_and_democracy/council_performance.aspx) and the 2016/17 Strategic Plan is located at [http://www.towerhamlets.gov.uk/lgnl/community\\_and\\_living/community\\_plan/strategic\\_plan.aspx](http://www.towerhamlets.gov.uk/lgnl/community_and_living/community_plan/strategic_plan.aspx)

Over the past year we have also developed a new framework for the Strategic Plan which is centred on two priority outcomes which aim to;

**Creating opportunity by supporting aspiration and tackling poverty through:**

- a dynamic local economy, with high levels of growth benefiting us
- more residents in good-quality, well-paid jobs
- young people realising their potential
- more people living healthily and independently for longer
- reducing inequality and embracing diversity

**Creating and maintaining a vibrant, successful place through:**

- an improved local environment
- better quality homes for all
- less crime and anti-social behaviour
- engaged, resilient and cohesive communities

These priorities are supported by an enabling objective which aims to deliver a transformed council, making best use of resources and with an outward looking culture.

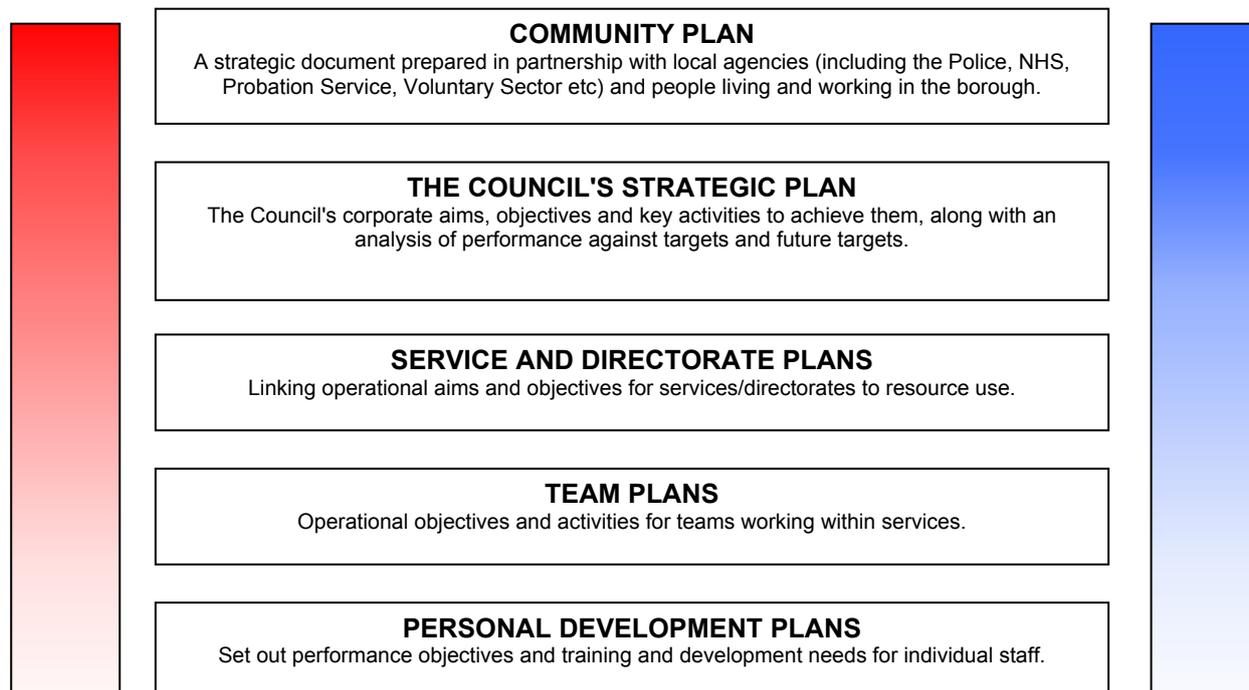
### **3.2 Corporate and Service Plans**

The overall planning framework is illustrated in the following diagram. As the diagram below shows, we align our Strategic Plan with the Community Plan structure around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, at which time it is also reviewed by the Overview and Scrutiny. The Community Plan is refreshed every three years.

Purpose  
Strategic

## TYPE OF PLAN

Focus  
Broad

Operational

Specific

Our vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDPs). This ensures that there is a “golden thread” that runs from the Community Plan to each individual employee’s work. This helps ensure that the vision, priorities and objectives are communicated to and delivered at all levels of the organisation. Further communication of core values and key initiatives takes place through the Council’s staff newsletter “Tower Hamlets Now”.

### 3.3 Performance Management

We operate a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and plans; and that progress against plans and targets is monitored and evaluated at all levels.

There is a mechanism by which all Council strategic performance indicators are challenged, annually risk assessed and a sample selected for testing by the performance management team supported by internal audit.

The Council’s Corporate Management Team (CMT), comprising the Directors and Corporate Directors for each service (including the Council’s Section 151 officer and the Monitoring Officer), is responsible for the overall management of the Council. The CMT also has responsibility for reviewing and challenging the Council’s performance and delivery of the strategic plan. The Cabinet and the Overview and Scrutiny Committee receive regular reports highlighting Council performance.

### **3.4 Council Constitution**

We have an agreed Constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- the role of overview and scrutiny;
- the role and responsibilities of the Audit Committee;
- codes of conduct for councillors and employees;
- the whistleblowing arrangements; and
- members' interests and allowances.

Under the Council's constitution, the Executive is the elected Mayor, who makes decisions in respect of all executive matters which cover the operational delivery of Council services within the delegation set out under the executive powers of the constitution. In making his decisions the Mayor is supported by the Cabinet, Directors and Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as budget approval and the setting of Council Tax. A scheme of delegation is in place to enable officers to manage their services operationally.

All key decisions required are published in advance in the Executive's Forward Plan, and are discussed in a meeting open to the public.

Upon the last review of the constitution in 2013/14 it was conformed to statute and best practice and was fit for purpose. Since then, there have been structural and statutory changes and various new bodies and procedures to improve governance all of which require changes to the constitution. The amendments required to take account of structural and statutory changes can be undertaken by the Monitoring Office pursuant to article 15.01 (c) of the constitution, and these are currently in hand. More significant amendments which have been identified will be submitted to the General Purposes Committee and Council as appropriate and a revised version of the constitution will be published before the end of the 2016/17 financial year.

The Monitoring Officer is also undertaking a review of the Officer Scheme of Delegation and when completed this will be appended to the constitution and published in the same timeframe.

The Council considers and approves any changes proposed to the key strategic policies set out in article 4 of the constitution, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the medium term financial plan including the capital programme and annual revenue budget;
- the licencing policy; and
- the local development framework.

### **3.5 Codes of Conduct**

We have a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers at least annually. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities.

The responsibility to declare interests has also been extended to all tenderers and bidders as part of the procurement process. Periodically the audit plan contains reviews relating to compliance with the codes of conduct.

Councillors are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Councillors must also declare any gifts and hospitality with the records made public on the Council's website.

### **3.6 Rules, Regulations, Policies, and Procedures**

Our rules and procedure is part four of the Council's Constitution. We have a duty to ensure that we act in accordance with the law and relevant regulations in the performance of its functions. We have developed policies and procedures to ensure that, as far as are reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

### **3.7 Overview and Scrutiny**

During 2015/16 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and the Health Scrutiny Panel. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

The Overview and Scrutiny function reviews decisions made by the Mayor in Cabinet and raises proposals for the Mayor in Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they also consider performance monitoring information and have a key role in reviewing and challenging the Mayor in Cabinet's budget prior to consideration at Full Council.

In 2015/16 an executive decision was called in on the decision to abandon litigation against Rich Mix which was refereed back to the Mayor for consideration in Cabinet. As a result some changes were made to the original decision to include greater performance monitoring. The Committee held Scrutiny Spotlights with the Mayor and Cabinet Members focusing on a range of issues which allowed them to hold to account the Cabinet. The Committee's major piece of work this year focused on transparency within the organisation. The Committee's Transparency Commission final report set out the following key goals for the Council:

- Make the Council a beacon for openness, accountability and transparency by the end of 2017-18
- Enhance the role of Overview and Scrutiny to enable greater openness, accountability and transparency in 2016-17, and
- Publish all data by default wherever possible by the end of 2016-17

An Annual Scrutiny Report detailing the work of the Overview and Scrutiny Committee and the Health and Scrutiny Panel is approved and presented to Council annually. The 2015/16 report was included in the May 2016 agenda of the Committee. The work programme also involved a number of in-depth scrutiny reviews and challenge sessions focusing on Prevent, Homelessness, Maternity Services, Child, Adolescent Mental Health Services, Workforce to Reflect the Community, Recycling and Social and Emotional Mental Health.

### **3.8 Monitoring of the Best Value Performance Plan**

As detailed earlier in this statement, the PwC inspection identified best value failings in relation to three out of the four areas reviewed and although there was compliance in the procurement, there were noted areas for improvement. As a result of this and the subsequent directives for each of the four areas the Council has produced a best value action plan, which includes a focus on broader areas, including

Organisational Culture. The Plan was submitted to the Secretary of State for CLG in March 2015. Officers responsible for these improvement areas have regular meetings with the Commissioners to review the progress against the action plan and a Best Value Programme Board, chaired by the Mayor, has been set up to monitor progress. As required by the directions this progress is then reported back to the Secretary of State for CLG every six months. The Council has submitted two progress reports so far September 2015 and March 2016 highlighting progress made against actions.

### **3.9 Audit Committee**

For 2015/16, the Audit Committee comprised seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the Audit Committee: Guidance for Local Authority and Police. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Council's external auditor, KPMG. The Audit Committee met four times during the financial year 2015/16 and plans to meet five times in 2016/17. The 2014/15 annual accounts have not been formally signed off.

### **3.10 Internal Audit**

Internal audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. Internal Audit provides assurance and advice on internal control to the Mayor, the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control and where relevant, recommends improvements. It also supports the management of the Council in developing its systems and providing advice on matters pertaining to risk and control. In carrying out this function Internal Audit contributes to the discharge of the Corporate Director, Resources' Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. This report is one of the sources of assurance used in the preparation of this statement. For 2015/16, the overall the control environment was adjudged by the Head of Internal Audit to be adequate.

Following the publication of the Public Sector Internal Audit Standards (PSIAS), the Council's internal audit arrangements have been updated and the Audit Charter endorsed by the Audit Committee most recently in June 2015.

The Head of Audit & Risk reports quarterly, on a formal basis, to the Corporate Management Team on findings of audit work and investigations. He also meets as required with CMT members individually as well as other officers with roles key to the Governance Framework to discuss governance related issues. The internal audit charter, setting out the purpose and authority and responsibility of internal audit was approved by CMT and the Audit Committee in June 2015.

To support the monitoring and assurances available with regards the completion of the Best Value Action Plans the 2015/16 Internal Audit Plan includes some focused work to assess whether the milestones detailed in the Best Value Improvement Plan have been implemented. The Internal audit report for the review of the Procurement Best Value Improvement plan was presented to the Best Value Programme Board on 26 January 2016 and the internal audit reports for Communications, Property and Grants was presented on 22 February 2016.

### **3.11 External Audit**

The Council's external auditors, KPMG:

- Review the Council's accounts to ensure that they comply with statutory requirements and that proper practices have been observed in compiling them; and
- Conclude on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In 2013/14, KPMG issued an unqualified audit opinion on the Council's financial statements. In respect of whether the authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, KPMG issued an adverse opinion and raised a S11 recommendation under the Audit Commission Act 1998. The recommendation was reported to the Audit Committee on 23 September 2015 in the external audit report "To Those Charged with Governance." The Authority considered the Section 11 recommendation at a meeting of the full Council on 20 January 2016 and at the General Purposes Committee on 8 February 2016.

At the Council and General Purposes Committee meetings it was agreed to accept the Section 11 recommendation and that the following courses of action would be undertaken:

- Continue with actions identified in the Best Value Action Plan in keeping with the agreed timescales.
- Set up a 'Governance Working Group' with formal Terms of Reference to thoroughly review the governance processes of the Authority.
- Construct a 'Governance Working Group Action Plan', with identifiable tasks, responsible officers and timeframes.
- Complete other items identified in the Final ISA260 Report 2013/14.
- Report progress to the General Purposes Committee and the Audit Committee on a regular basis.

Further information can be found at <http://moderngov.towerhamlets.gov.uk/documents/s81734/2016%2001%2007%20PG%20Draft%20Council%20Report%20-%20S11%20V5%20-%20legal%20v2%20Final.pdf>.

### **3.12 Whistle Blowing Policy and the Complaints Procedure**

We have a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of three stages to enable the public to escalate their complaints if they are not satisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and the Standards Advisory Committee.

The Mayor and elected Members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has arrangements to support members in addressing these queries to ensure that the public receive an appropriate answer.

The Council also has a whistle blowing policy in addition to the Council's Anti Fraud and Corruption Strategy. The Anti-Fraud and Corruption Strategy is refreshed annually and reported to the Audit Committee at its March committee. The strategy was last refreshed in June 2016. We have enhanced current arrangements by promoting the Council's whistle blowing arrangements by raising awareness of the Council's whistle blowing arrangements and improving reporting. The new arrangements were rolled out in May 2016.

### **3.13 Risk Management**

We have a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The principles of risk management are embedded in the Council's decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the

least risky option, particularly where the potential benefits to the community warrant the acceptance of a higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments.

Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Management Team. Directorate Risk Champions oversee the continued development of the Council's approach to risk management.

We have engaged Zurich Municipal Engineering to review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation and facilitating workshops with the Corporate Management Team and Directorate Management Teams. This work will look at our appetite to take risks in pursuit of our strategic objectives and assess whether organisationally we have the same understanding of our risk appetite.

### **3.14 Information Governance**

We have established two groups to oversee Information Governance as a risk area and ensure robust governance arrangements are in place and adhered to across the organisation. An Information Governance Group meets six weekly to discuss issues arising and the Freedom of Information Board, which is co-ordinated by Legal Services, who have overall oversight. In 2014/15 we participated in a voluntary inspection by the Information Commissioners Office (ICO) to generate independent assurances with regards the arrangements in place. An action plan has been developed following this inspection and signed off by the Freedom of Information Board before being submitted to the ICO. The action plan was agreed with the ICO and monitored by the Information Governance Group.

### **3.15 Financial Management**

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources (the Council's S151 officer). The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or will be detected.

Our medium term financial plan sets out the need to deliver financial savings to 2019/2020. Arrangements have been made to identify opportunities and for the delivery and reporting of savings to CMT and Cabinet.

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2015/16 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a medium-term financial plan incorporating an analysis of the financial risks facing the Council over the next three years and an assessment of the adequacy of General Fund and HRA reserves;
- regular reporting of actual expenditure and income against budgets and spending forecasts and service performance against targets;
- an annual Treasury Management and Investment Strategy including a prudential borrowing framework and associated indicators; and
- standing meetings of finance managers from across the Council (Finance Strategy Group and the Financial Reporting Technical Excellence Group).

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self-assessment of the Council has shown the authority conforms to the good practice identified within the code.

### **3.16 The Efficient and Effective Use of Resources**

As noted earlier in this statement, we have been subject to a Best Value inspection and the findings arising from the inspection are captured under review of effectiveness (Section 4). KPMG's assessment on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resource in relation to 2013/14 resulted in the issue of an adverse opinion in respect of the authority's arrangements to secure value for money.

The authority has developed an action plan to improve value for money and seek continuous service improvement through a range of processes, including the application of best value principles and the carrying out of efficiency reviews as set out under the background section of this report.

During 2014/15 and 2015/16, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in the future. As part of its service and financial planning process, the Council set efficiency targets and brought performance data into the consideration of resource allocation.

The strategic planning process ensures that resources are focused on the priorities set out in the Strategic Plan. Processes for service and financial planning are aligned and the annual budget process evaluates new requirements for resources in terms of their contribution to the objectives of the Strategic Plan. Corporate guidance on team planning requires consideration of value for money issues in developing annual objectives. Reports concerned with proposed expenditure, reviewing or changing service delivery or the use of resources contain an efficiency statement setting out how the proposals will assist towards achieving greater efficiency together with associated Equality Impact Assessments.

We also participate in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Cabinet Office, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team continues to actively engage with the Cabinet Office to test and improve the output from the NFI exercise. The findings were reported to CMT and the Audit Committee, the exercise is completed every two years.

We are deploying increasing innovative approaches to tackle risks to deliver value for money services. One example is to link debtors across a number of council activities to ensure the more efficient and effective use of Council resources in pursuit of the debts and to improve outcomes through a targeted approach.

### **3.17 Learning and Organisational Development**

We have a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they are best equipped to deliver excellent public service. These include a Leadership programme, specific training relating to Recruitment and Selection, Risk Management, and computer based training.

Councillors have a member support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. For some aspects of Council work Members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

### **3.18 Communication and Engagement**

We publish numerous documents on our website as well as providing a weekly paper, East End Life to keep residents up-to-date, in an informal and accessible way, on the work of the Council. A review of the value for money and compliance of East End Life was requested as part of the Best Value Action Plan. Following the review, a decision was made for East End life to be published fortnightly from January 2016 and quarterly from May 2016 to bring the publication in line with the Recommended Code of Practice for Local Authority Publicity.

We also engage with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform us of the perception of services we provide and the experience of services users. Further, we use a wide range of digital media to engage with a wide range of stakeholders. Our website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

At a local level we have a number of community forums which are used to engage with the community. Young people make up a greater proportion of the Tower Hamlets population compared to the rest of London, and the Council has thus sought to engage with them by enabling them to vote for a young Mayor of the Council. The young Mayor has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Mayor's surgeries with community groups, local businesses and others also provide direct communication and engagement with all stakeholders.

Elected Members of the council also hold regular surgeries for their wards.

### **3.19 Partnerships**

Our most significant partnership is Tower Hamlets Partnership.

In February 2012, the partnership structure was refreshed. In the new structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. At a ward level Local Community Ward Forums enable local people to engage with the council and identify local priorities and projects for co-delivery.

Due to the Care Act and the drive towards more integrated services the Council we have been working in partnership with the Clinical Commissioning Groups, BARTs and East London Mental Health Trust. A formal partnership called the Tower Hamlets Integrated Provider Partnership has been created and we are committed to working to achieve shared outcomes with the members of the partnership. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

We have an established Arm's Length Management Organisation, Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage its housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company's Board. Performance is monitored through a regular review process with senior council officers and elected Members. The company operates its own risk management strategy and is subject to internal and external inspections and audit in compliance with the Companies Acts.

### **4. Review of Effectiveness**

We have responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of governance environment, the head of audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review involved the evaluation of the key sources of assurance:

- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.

- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- The Council is subject to external audit activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of financial internal control.
- Performance monitoring shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- Monitoring of the 2014/15 Significant Governance Issues as well as the actions plans arising from the PwC review of best value.
- The outturn on the 2015/16 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Quarterly monitoring of strategic risks of the Council by the Corporate Management Team.
- Meetings with Corporate Management Team Members who have reviewed their own directorate governance issues and actions with their Directorate Management Teams to seek input to the issues at a corporate level.

There has also been significant work to review and improve our governance arrangements and this work is considered in the process to produce this statement. An example of this is outlined below.

Our Overview and Scrutiny Committee established an Overview and Scrutiny Transparency Commission (OSTC). The Commission aimed to identify actions the council should take to improve transparency and find ways the council can be more transparent. The Commission considered how:

- residents be better informed about council activity, processes and decisions;
- elected members be supported to make more transparent decisions; and
- decision-makers be held to account transparently.

The Overview and Scrutiny Committee agreed its final report, at its meeting on 29 January 2016. The report contained 18 recommendations and has been presented to the Mayor for implementation.

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective. We propose over the coming year to take steps to further enhance our governance arrangements.

### **Significant Governance Issues**

The PwC review and our own internal review of the effectiveness of the governance arrangements in place during 2015/16 has identified some areas where action is appropriate to enhance the Council's governance framework. The significant issues and the specific actions to address that have been taken and those planned for the future are set out below and in all cases, due to the on-going monitoring of the governance framework, work is already underway to address the action points.

Each significant governance issue has an identified CMT lead who takes responsibility for progress and implementation. The actions identified within this statement form part of the performance management framework for each director and will be incorporated into their directorate performance plans.

The overall process is overseen by the Audit Committee who approves the Annual Governance Statement prior to it being signed off by the Mayor and the Chief Executive.

<b>Governance Issue and action noted</b>	<b>Update / further proposed action</b>	<b>CMT Lead and expected resolution date</b>
<p><b>1) Payments to third sector organisations outside Mainstream Grants.</b></p> <p>Internal audit received an external referral and as a result of the subsequent review found that there were irregularities in payments made by the Council to an organisation. This matter has been reviewed to the police.</p> <p>Further investigation has resulted in more organisations being referred to the police.</p> <p>The systems and processes have been improved and increased compliance work has been completed and embedded into control environment.</p> <p>Finalisation of schedule of all grant regimes by July 2015 ensures no approved grant is paid.</p>	<p>The authority continues to assist the Police with its enquiries as they arise. No further actions.</p>	<p>Corporate Director, Communities Localities Culture</p> <p>April 2016</p>
<p><b>2) Management arrangements for the control and monitoring of grants.</b></p> <p>Following a comprehensive review of this service and its approach to audit a corporate grant function has been created to enhance consistency of approach to grant giving, monitoring and reporting across the Council. It is also anticipated that the function will ensure approved grant is only paid following proper due diligence of the organisations, and outcomes expected from the grant.</p> <p>There is a Best Value Performance Plan for Grants which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones occurred throughout the financial year with the final actions to be completed March 2016.</p>	<p>A corporate grants team has been created to ensure management and control over grant giving, monitoring and reporting across the Council. The team will ensure grants are only approved following proper due diligence of the organisations, and outcomes expected from the funding.</p> <p>There is a Best Value Improvement Plan for Grants which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones in the best value</p>	<p>Corporate Director - Resources</p> <p>March 2016</p>

<b>Governance Issue and action noted</b>	<b>Update / further proposed action</b>	<b>CMT Lead and expected resolution date</b>
	performance plan final actions to be completed March 2016.	
<p><b>3) Strengthen controls over disposal of assets that demonstrate best value is secured by the Council.</b></p> <p>Following the inspection disposal of assets is part of the Best Value Action Plan – Improvements to process have been made. Currently the Commissioners have the relevant Executive Powers. An assurance has been agreed by cabinet and embedded in financial regulations. A report has been provided to CMT.</p> <p>Internal Audit work in this area also generated actions which have been implemented.</p> <p>Arrangements are being made to improve the outcomes for the Council from its assets which require the asset management strategy to be reviewed and approved by Cabinet.</p> <p>Audit work will provide assurances with regards compliance.</p> <p>There is a Best Value Performance Plan for Property which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones occur throughout the financial year with the final actions to be completed March 2016.</p>	<p>The Council's Asset Management strategy was reviewed and approved by Cabinet in December 2015, including arrangements to demonstrate value for money in disposal of assets.</p> <p>There is a Best Value Performance Plan for Property which contains a number of actions to strengthen governance arrangements. Final actions to be completed March 2016.</p>	<p>Corporate Director - Development and Renewal</p> <p>March 2016</p>
<p><b>4) Publicity Expenditure Controls</b></p> <p>This issue was identified during the inspection and the Authority subsequently received directions relating to publicity expenditure.</p> <p>A new Strategy and Protocol documents has been produced and a fully costed communications plan is now in place.</p> <p>There is a Best Value Performance Plan for Communications which contains a number</p>	<p>There is a Best Value Performance Plan for Communications which contains a number of actions to strengthen governance arrangements.</p> <p>Future planned actions include a new system and implementation of a testing regime to ensure</p>	<p>Monitoring Officer – Law, Probity and Governance</p> <p>September 2016</p>

<b>Governance Issue and action noted</b>	<b>Update / further proposed action</b>	<b>CMT Lead and expected resolution date</b>
<p>of actions to strengthen governance arrangements.</p> <p>A new system and implementation of a testing regime to ensure compliance with relevant code and other requirements.</p> <p>Deadlines and milestones occurred throughout the financial year with the final actions were completed September 2016.</p>	<p>compliance with relevant code and other requirements.</p> <p>Deadlines and milestones occur throughout the financial year with the final actions to be completed September 2016.</p>	
<p><b>5) Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.</b></p> <p>The Local Government Association reviewed the Council's constitution and indicated that the constitution is fit for purpose and conforms to statute and best practice. Further, recognising that there may be areas where the authority may learn from other authorities with an Executive Mayor, an independent external review was also commissioned comparing the Council's constitution with those of similar local authorities. This review confirmed there were no fundamental weaknesses or gaps in the Council's constitution. There are opportunities to word elements more clearly or tighten up some areas of process to enable the Executive and non-Executive business to run more smoothly. In light of structural and statutory change, the Constitution is somewhat out of date.</p> <p>There were some minor issues around scheme of delegation raised through audit work in 2014/15 and the Corporate Director, Law Probity Governance has undertaken a review which will be published as an appendix to the revised constitution.</p> <p>External Review of Virements was completed in 2014.</p> <p>Review of the constitution.</p>	<p>Actions are included within the BVAP for organisation culture action plan. It is anticipated the majority of the work in this area will be completed by March 2016, although there will be on-going review and update of the constitution there after as part of the usual business of the Authority.</p>	<p>Monitoring Officer – Law Probity and Governance</p> <p>March 2017</p>

<b>Governance Issue and action noted</b>	<b>Update / further proposed action</b>	<b>CMT Lead and expected resolution date</b>
<p>Review of the Schemes of Delegation and implementation of an annual review process which will be confirmed as part of the annual governance processes embedded within the organisations governance framework.</p> <p>It is anticipated the work in this area will be completed by March 2016, although there will be on-going review and update of the constitution there after as part of the usual business of the Authority.</p>		
<p><b>6) Enhance contract management and contract letting process.</b></p> <p>The Procurement Strategy and procedures have been refreshed and adopted.</p> <p>To ensure compliance around procurement, the Competition Planning Forum and the Competition Board continue to monitor and recommend the best course of action for all significant purchases.</p> <p>The new procedures now provide greater visibility and input from the Corporate procurement team and over the next financial year, the team plan to seek better outcomes from the organisation's spend and enhance contract monitoring arrangements across the organisation.</p> <p>There is a Best Value Performance Plan for Procurement which contains a number of actions to strengthen governance arrangements.</p> <p>Future planned actions include an Annual Procurement Report, three year strategy and Supplier Ethical Code of Conduct.</p> <p>Deadlines and milestones occurred throughout the year with the final actions to be completed April 2016.</p>	<p>Monitoring of the Best Value Performance Plan for Procurement which contains a number of actions to strengthen governance arrangements final actions to be completed April 2016</p>	<p>Chair of Competition Board and Corporate Director, Resources</p> <p>April 2016</p>
<p><b>7) Review, and where necessary, enhance arrangements around declarations of</b></p>	<p>The council's policies,</p>	<p>Corporate Director -</p>

<b>Governance Issue and action noted</b>	<b>Update / further proposed action</b>	<b>CMT Lead and expected resolution date</b>
<p><b>interests.</b></p> <p>The Council has in place arrangements for declarations of interests. The existing arrangements will be reviewed to ensure staff and members are aware of their responsibility and Council procedures and processes strengthened to identify potential interests.</p> <p>Mandatory training will also be provided to ensure staff and members complete their declarations in a timely manner.</p>	<p>procedures and processes have been reviewed.</p> <p>Officers are required to complete declaration of Interest forms on a 6 monthly basis as part of the PDR process and the form is accessible via the self-service HR module.</p> <p>A list of organisations receiving financial assistance from the authority is being compiled to guide Members and Officers in making their declarations.</p> <p>Annual mandatory training is continuing to be provided for all members. The regular review of forms includes a reminder to ensure interest declarations are complete and up to date. In relation to officers, regular reminders continue to be issued to staff to update their online declaration forms.</p>	<p>Resources</p> <p>October 2016</p>
<p><b>8) Review the Council's Section 106 arrangements.</b></p> <p>The Council's external auditors highlighted a number of control issues in the administration of the Council's S106 arrangements.</p> <p>An independent review of the arrangements in relation to s106 receipts and payments will be undertaken to ensure effective and robust processes, controls, monitoring and reporting arrangements are in place, in accordance with agreements and aligned with the planning consents.</p>	<p>Grant Thornton was appointed to carry out an independent review. Grant Thornton has completed its review and has issued a draft report for management comment before finalising the report in April 2016.</p>	<p>Corporate Director, Development and Renewal and Corporate Director, Resources</p>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvement that were identified in our review of effectiveness and will monitor progress periodically and confirm their implementation and operation as part of the process to produce the 2016/17 Annual Governance Statement.

.....

Chief Executive

Date:

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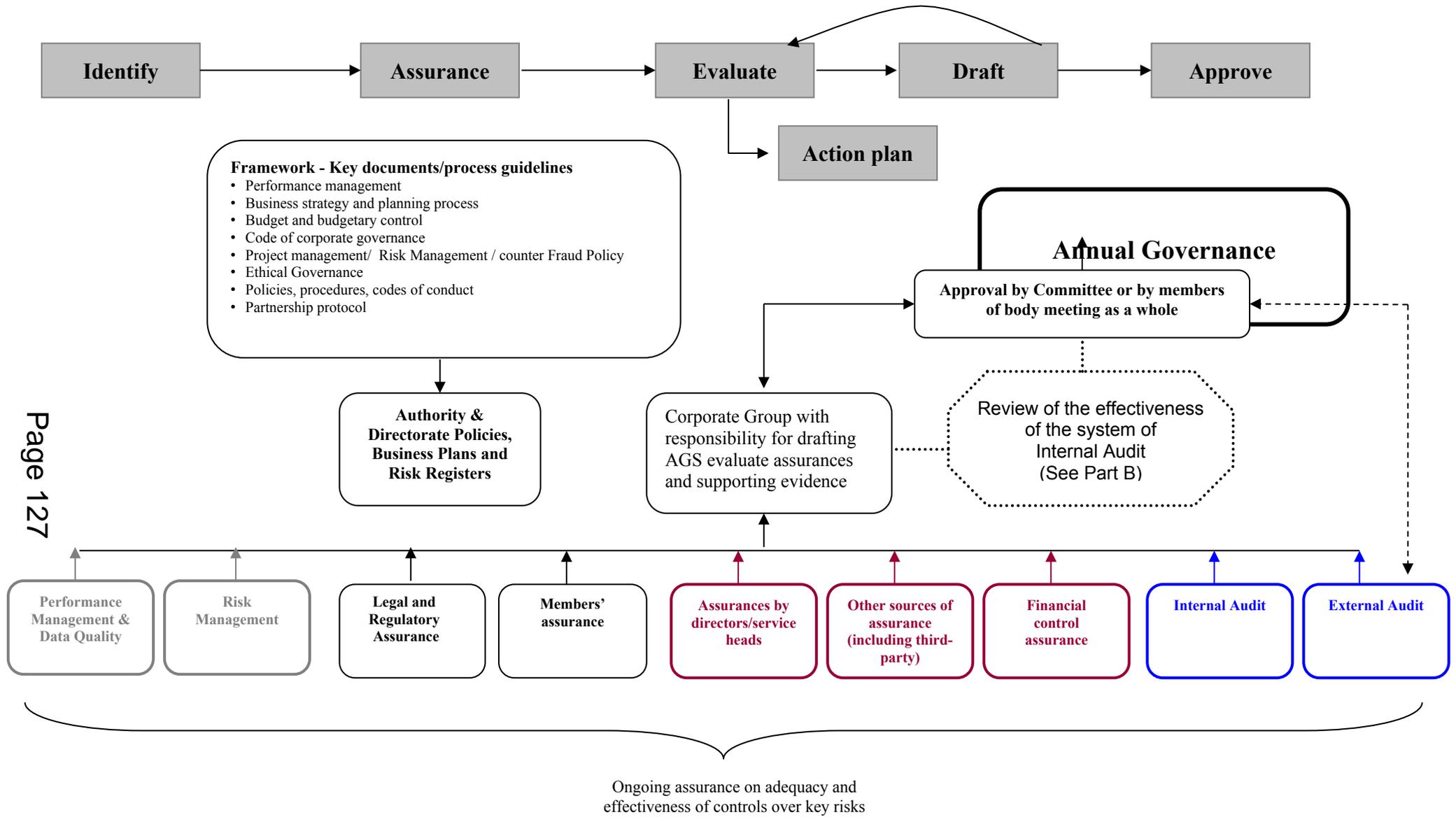
Mayor

Date:

## Assurance Control Checklist (summary)

Step	Description	Assurance
<b>Objective 1: Establishing principal statutory obligations and organisational objectives</b>		
<b>Step 1:</b> Identification of principal statutory obligations	Constitution	Yes
	Committee terms of reference	Yes
	Scheme of delegation	Yes
	System to identify and disseminate changes in legislation	Yes
	Evidence of dissemination	Yes
<b>Step 2:</b> Establishment of corporate objectives	Community & strategic plans	Yes
	Consultation on plans	Yes
	Service planning framework	Yes
	communication strategy	Yes
<b>Step 3:</b> Corporate Governance arrangements	Local code of corporate governance	Yes
	Audit Commission Corporate Governance review	Yes
	CIPFA/Solace checklist action plan	Yes
	Committee charged with corporate governance	Yes
	Governance training for members	Yes
	Role of Chief Finance Officer	Yes
<b>Step 4:</b> Performance management arrangements	Performance Mgmt framework	Yes
	Performance Mgmt monitoring reports	Yes
	Inspection reports	Yes
<b>Objective 2: Risk Management</b>		
<b>Step 1:</b> Risk Management strategy	Risk Management strategy	Yes
	Evidence of dissemination & review	Yes
<b>Step 2:</b> Risk Management systems & structures	Member forum	Yes
	Senior Mgmt Team reporting	Yes
	Member and officer lead	Yes
	Defined process for reviewing and reporting risk	Yes
	Corporate and departmental risk registers	Yes

	Insurance and self-insurance review	Yes
	RM training	Yes
<b>Step 3:</b>		
Risk Management is embedded	Committee reports include risk management assessment	Yes
	Risk is considered in business planning process	Yes
	Corporate risk management board	Yes
	Risk owners identified in registers	Yes
	Evidence of review of risk registers	Yes
	Risks considered in partnership working	Yes
<b>Objective 3 Identify key controls to manage principal risks</b>		
<b>Step 1:</b>		
Robust system of internal control, which includes systems & procedures to mitigate principal risks	Financial Regulations, incl. compliance with CIPFA Treasury Management Code and Prudential Code	Yes
	Contract Standing Orders	Yes
	Whistleblowing policy	Yes
	Counter fraud & corruption policy	Yes
	Codes of conduct, eg Members, Member : Officer etc	Yes
	Register of interest	Yes
	Scheme of delegation approved	Yes
	Corporate procurement policy	Yes
	Corporate recruitment and disciplinary codes	Yes
	Business continuity plans	Yes
	Corporate / departmental risk registers	Yes
	Independent assessment, by Internal & External Audit	Yes
	Audit Commission reliance on Internal Audit work	Yes
	Corporate health & Safety Policy	Yes
	Corporate complaints procedures	Yes





<b>Non-Executive Report of the: 20 September 2016 Audit Committee and 21 September 2016 Full Council</b>		 <b>TOWER HAMLETS</b>
<b>Report of: Zena Cooke, Corporate Director of Resources</b>		<b>Classification: Unrestricted</b>
<b>Treasury Management Quarterly Update Report for Quarter Ended June 2016</b>		
<b>Originating Officer(s)</b>	<b>Bola Tobun - Investment &amp; Treasury Manager</b>	
<b>Wards affected</b>	<b>All wards</b>	

### **Reasons for Urgency**

The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution, because new investment options requiring a change to the Council's Treasury strategy only arose after the first draft of the report had been prepared and required officers to agree to the change.

As Audit Committee monitor the Council's investment strategy, it is appropriate that Audit Committee is aware of the proposed investment strategy changes before full Council on 21<sup>st</sup> September consider the amendments.

### **Summary**

This report advises the Committee of the Council's borrowing and investment activities from the start of financial year 2016/17 to 30 June 2016. The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2016/17 were approved by the Council on 24 February 2016 as required by the Local Government Act 2003.

The report also provides information on the economic conditions prevailing in the first quarter of 2016/17. The report provides a summary of the prudential indicators, treasury management indicators and a summary of the credit criteria adopted by the Corporate Director of Resources for the reporting year and the projected investment returns.

The Council earned an average return of 0.78% on its lending activities.

No long-term or short-term borrowing has been raised since the commencement of this financial year 2016/17 to reporting period.

### **Recommendations**

Members are recommended to:

- Note the contents of the treasury management activities and performance against targets for quarter ending 30 June 2016;
- Note the Council's investments which are outstanding as at 30 June 2016 as set out in Appendix 1. The balance outstanding at that time was £452.95m which includes £73m, pension fund cash awaiting investment in early July.

- To recommend to the full council to agree increasing investments over a year monetary limit from £50m to £100m as set out in section 3.12.3
- To recommend to the full council to approve increasing monetary limit and duration of part nationalised banks from £25m and 3 years to £50m and 5 years as set out in section 3.12.4

## **REASONS FOR DECISIONS**

- 1.1 This report updates on both the borrowing and investment decisions made by the Director of Resources under delegated authority in the context of prevailing economic conditions and considers Treasury Management performance.
- 1.2 Treasury management is defined as “the management of the council’s investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.3 Legislation requires that regular reports be submitted to Council/Committee detailing the council’s treasury management activities.
- 1.4 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on implementation of investment strategy as approved by Full Council.

## **2 ALTERNATIVE OPTIONS**

- 2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (In Tower Hamlets the Audit Committee has been identified as the relevant committee) should receive regular monitoring reports on treasury management activities.
- 2.2 If the Council were to deviate from those requirements, there would need to be a good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council.
- 2.3 Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

## **3. BACKGROUND**

- 3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council should receive regular monitoring reports on treasury management activities and risks.
- 3.2 These reports are in addition to mid-year and annual treasury management outturn reports that should be presented to the Full Council midway through the financial year and at year end respectively.

### **TREASURY MANAGEMENT STRATEGY 2016/17**

- 3.3.1 The Council's Treasury Management Strategy was approved on 24 February 2016 by Full Council. The Strategy comprehensively outlines how the treasury function would operate throughout the financial year 2016/17 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt.
- 3.3.2 The Council has complied with the strategy to the reporting period; to 30 June 2016. All investments were made to counterparties within the Council's approved lending list.
- 3.3.3 In addition to the surplus cash of the Council from its General Fund activities any surplus Pension Fund cash awaiting investment has also been invested in accordance with Council's Treasury Management Strategy agreed by Full council on the 24 February 2016, under the delegated authority of the Corporate Director of Resources and is being managed in-line with the agreed parameters. The Pensions Committee is updated on Pension Fund investment activity on a quarterly basis.

### **ECONOMIC COMMENTARY**

- 3.4.1 On 4<sup>th</sup> August the Bank of England (BoE) cut the bank base rate for the first time since 2009 to 0.25%, as the Monetary Policy Committee (MPC) voted unanimously in favour of a cut. It also expanded its Quantitative Easing (QE) programme by £60bn to £435bn.
- 3.4.2 The August 2016 Inflation Report showed the BoE left its growth forecasts unchanged at 2% for 2016 but lowered its forecast for 2017 significantly to 0.8% from the previous estimate of 2.3%. Inflation forecasts were revised up sharply due to the fall in sterling and are now forecasted to hit the 2% target in 2017 and rise further to 2.4% in 2018 and 2019.
- 3.4.3 The headline inflation figure increased to 0.5% year-on-year in June, whilst the monthly rate remained at 0.2%.
- 3.4.4 The UK unemployment rate fell to 4.9% in the three months to May, its lowest level since 2005, lowering the unemployment figure to 1.646m. British wage growth, including bonuses, rose by 2.3% on an annual basis. Excluding bonuses, growth in average weekly earnings in May rose by 2.2% year-on-year from 2.3% in the previous month.

### **INTEREST RATE FORECAST**

- 3.5.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

Capita Asset Services' Interest Rate View												
	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank Rate Forecast	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%
3 month LIBID Forecast	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.50%	0.60%	0.60%	0.60%	0.60%
6 month LIBID Forecast	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
12 month LIBID Forecast	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	1.00%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.30%
10yr PWLB rate	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.80%	1.90%
25yr PWLB rate	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
50yr PWLB rate	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%

3.5.2 Capita Asset Services undertook a quarterly review of its interest rate forecasts on 4 July 2016 after letting markets settle down somewhat after the result of the referendum on 23 June to leave the EU. It was generally agreed that this outcome will result in a slowing in growth in the second half of 2016 at a time when the Bank of England has only limited ammunition in its armoury to promote growth by using monetary policy. They therefore expect that Bank Rate to be cut over this period. Thereafter, they do not expect the MPC to take any further action on Bank Rate in 2016 or 2017 as they expect the pace of recovery of growth to be weak during a period of uncertainty leading up to the final agreement between the UK and the EU on arrangements for leaving and the immediate period after 'Brexit'.

3.5.3 However, they also considered the possibility that the MPC may also consider renewing the programme of quantitative easing; the prospect of further purchases of gilts in this way has already resulted in 10 year gilt yields falling below 1% for the first time ever. Capita do not expect the Bank Base Rate to start rising until quarter 2 2018 and for further increases then to be at a slower pace than before as previously stated by the Governor of the Bank of England.

### **3.6 Annual Investment Strategy**

3.6.1 The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, outlines, in order of importance, the Council's investment priorities as being:

Security of capital;

Liquidity; and

Yield.

3.6.2 The Council aims to achieve the optimum return (yield) on investments equivalent with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions.

3.6.3 The approved limits within the Annual Investment Strategy were not breached for the reporting period, quarter ending 30th June 2016.

### **Investment performance for quarter ended 30 June 2016**

Benchmark	Benchmark Return	LBTH Performance	Over/(Under) Performance
<b>Full Year 2015/2016</b>	0.35%	0.82%	0.47%
<b>April 2016</b>	0.36%	0.76%	0.40%
<b>May 2016</b>	0.36%	0.78%	0.42%
<b>June 2016</b>	0.36%	0.78%	0.42%
<b>2016/17 Year to Period</b>	0.36%	0.77%	0.41%

3.6.4 As illustrated above, the Council outperformed the 7 day London Interbank Bid rate (LIBID) benchmark for the financial year to date. However, the Council's weighted annual maturity was significantly longer than this (see paragraph 3.7.4 below). Further benchmark performance information is set out in section 3.8 below.

3.6.5 The Council's budgeted investment return is set at £2.7m for 2016/17 which is based on achieving average returns of at 0.9% for a £300m average balance. The performance to date is 0.77% with average balance of £425m.

3.6.6 Investment rates available in the market were low but broadly stable during the first half of the quarter but then took a slight downward path in the second half concluding with a significant drop after the referendum on expectations of an imminent cut in the Bank Base Rate and lower for longer expectations thereafter.

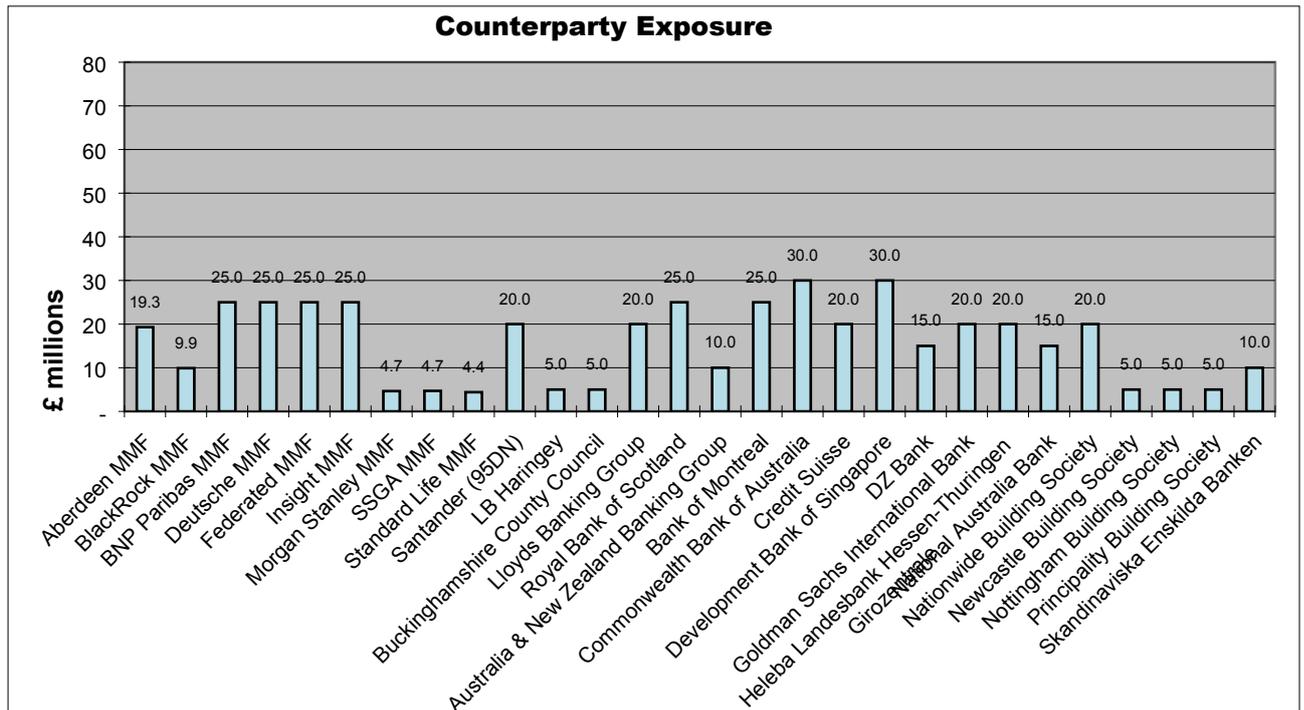
3.6.7 The level of funds available for investment purposes at the end of the reporting period was £452.95m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on reserves, the timing of precept payments, receipt of grants, progress against the Capital Programme and impending pension fund investment.

### **3.7 Investments Outstanding & Maturity Structure**

3.7.1 The table below shows the amount of investments outstanding at the end of June 2016, split according to the financial sector.

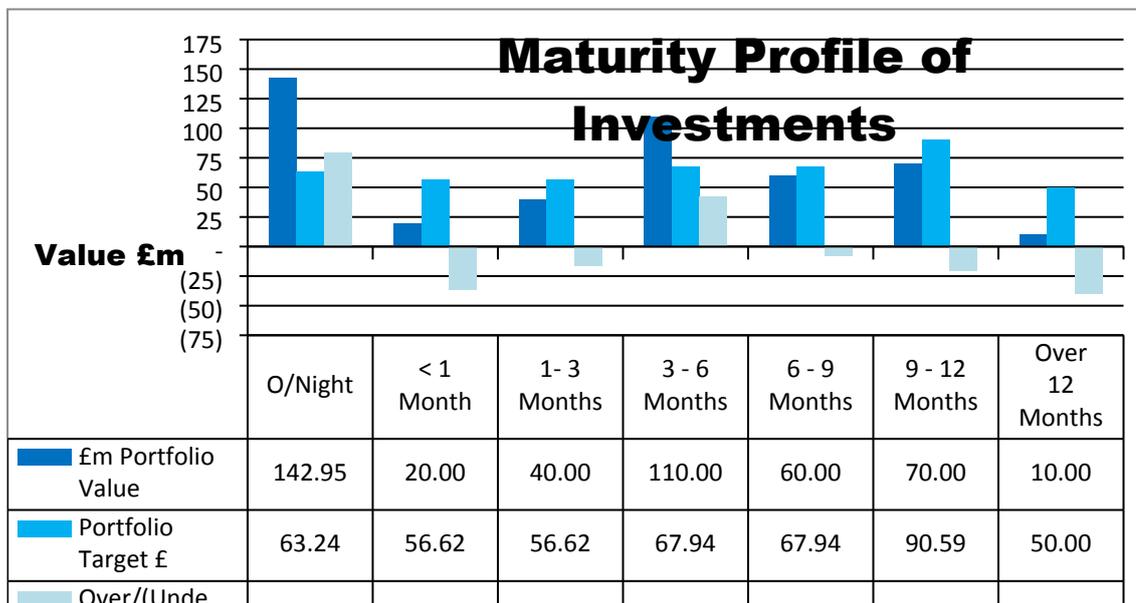
<b>FINANCIAL SECTOR</b>	<b>£m</b>	<b>%</b>
Banks in the UK	65.00	14.35
Building Societies in the UK	40.00	8.83
Government UK (Local Authorities)	10.00	2.21
Banks in the Rest of the World	195.00	43.05
Money Market Funds	142.95	31.56
<b>Investments Outstanding as at 30/06/2016</b>	<b>452.95</b>	<b>100.00</b>

**Chart 1 – Counterparty Exposure**



3.7.2 The Chart 1 above shows the deposits outstanding with authorised counterparties as at 30th June 2016, of which 5.5% were with part-nationalised banks (RBS Groups).

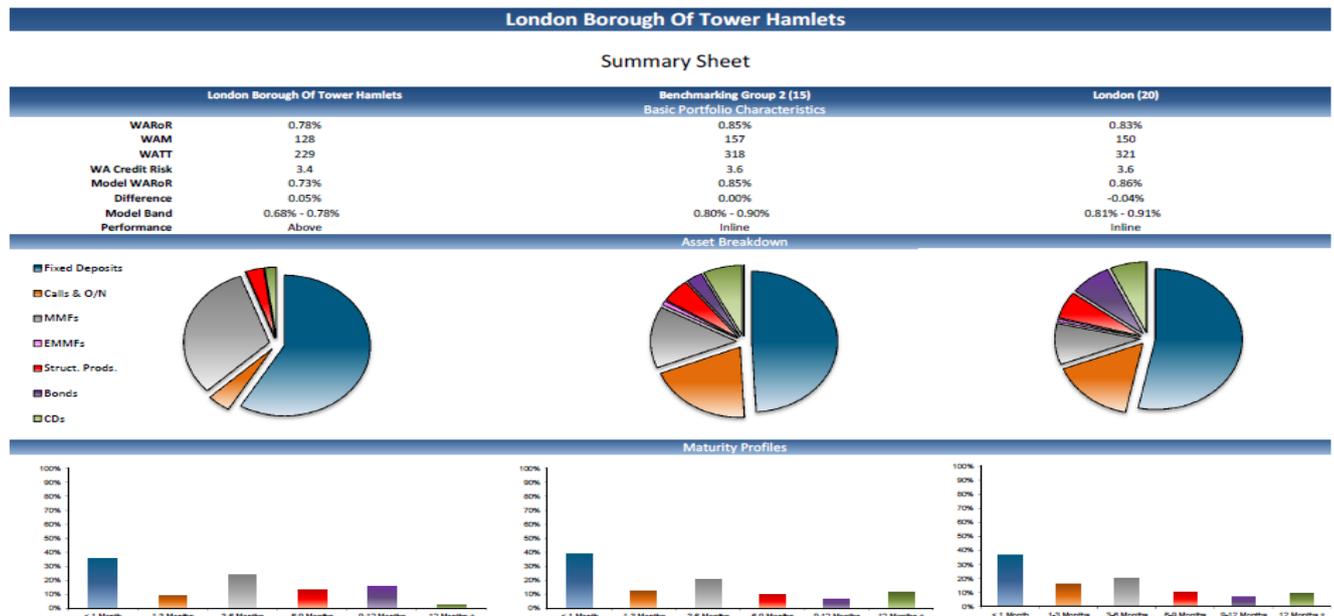
3.7.3 Chart 2 below illustrates the maturity structure of deposits as at 30 June 2016; we have £142.95m as overnight deposits, and this is all Money Market Funds.



3.7.4 The Weighted Average Maturity (WAM) for outstanding investment (excluding MMF) is 229 days for the month of June and including MMF is 128 days. This is the average number of outstanding days to maturity of each deal from 30 June 2016. The average maturity of investments would have subsequently increased in July following the Insight pension investment.

### 3.8 INVESTMENT BENCHMARKING CLUB

3.8.1 LBTH participates in a benchmarking club to enable officers to compare the Council’s treasury management, investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 30 June 2016. The Performance of Tower Hamlets is above the Model Weighted Average Rate of Return (WARoR) but below the performance of our benchmark comparators and the London benchmark.



3.8.2 The return on LBTH investment is commensurate with the Council’s risk appetite as set out in the Investment Strategy which is reflected in the above data. The holding of instant access deposits until the impending Insight pension investment in July resulted in the Council holding more short-term deposits than usual.

### 3.10 DEBT PORTFOLIO

3.10.1 The Council’s Treasury Management Strategy Report approved in February 2016 outlined the Council’s long term borrowing strategy for the year.

3.10.2 The table below sets out the Council’s debt as at the beginning of the financial year and as at 30 June 2016. During the financial year Barclays Bank waived their options in relation to the two LOBO loans and these can now be both classified as fixed rate funding. Total debt outstanding, stands at £87.825m, against estimated CFR of £226.225m for 2016/17, this implies internal borrowing of £138.4m.

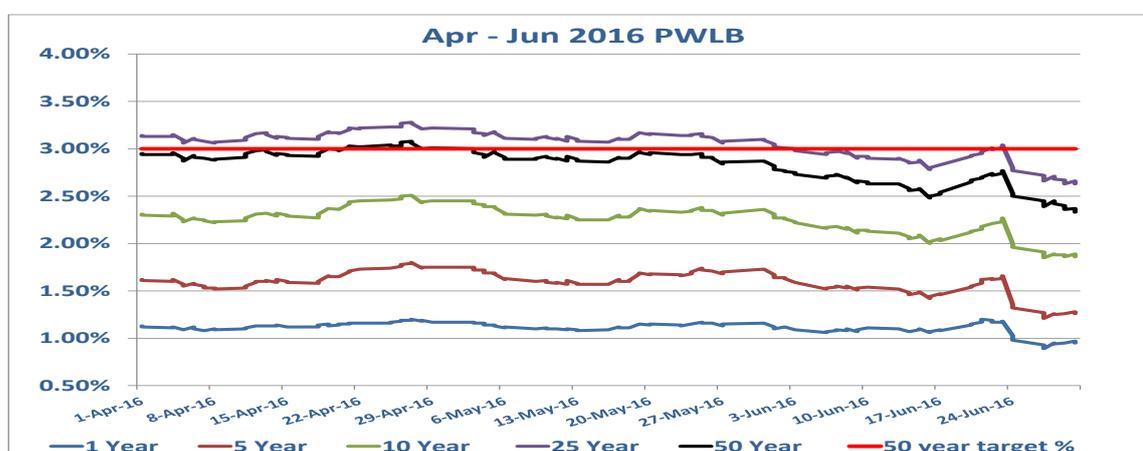
3.10.3 No debt rescheduling opportunities have arisen during this financial year to reporting period as the cost of premiums outweighs savings that could be made from the lower PWLB borrowing rates.

	31 March 2016 Principal	Loans raised	Loans repaid	30 June 2016 Principal
	£'000	£'000	£'000	£'000
<b>Fixed Rate Funding:</b>				
-PWLB	10,325	-	0.000	10,325
-Market	13,000	4,500	-	17,500
<b>Total Fixed Rate Funding</b>	<b>23,325</b>	<b>4,500</b>	<b>0.000</b>	<b>27,825</b>
<b>Variable Rate Funding:</b>				
-PWLB	-	-	-	-
-Market	64,500	-	4,500	60,000
<b>Total Variable Rate Funding</b>	<b>64,500</b>	<b>-</b>	<b>4,500</b>	<b>60,000</b>
<b>Total Debt</b>	<b>87,825</b>	<b>4,500</b>	<b>4,500</b>	<b>87,825</b>
<b>CFR</b>	<b>226,488</b>	<b>-</b>	<b>-</b>	<b>226,225</b>
<b>Over/ (under) borrowing</b>	<b>(138,663)</b>	<b>-</b>	<b>-</b>	<b>(138,400)</b>

3.10.4 New Borrowing - As shown in the graph below, there has been significant volatility in PWLB rates during quarter 1 culminating in a progressive fall in rates during the first three weeks in June as confidence rose that the polls were indicating an 'IN' result for the referendum, followed by a sharp rise in the run up to the referendum day as the polls swung the other way, followed by a sharp fall to the end of the month in anticipation that there is likely to be further quantitative easing purchases of gilts in the coming months.

#### PWLB certainty rates quarter ended 30 June 2016

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	0.89%	1.21%	1.85%	2.63%	2.33%
<b>Date</b>	27/6/16	27/6/16	27/6/16	29/6/16	30/6/16
<b>High</b>	1.20%	1.80%	2.51%	3.28%	3.08%
<b>Date</b>	27/4/16	27/4/16	27/4/16	27/4/16	27/4/16
<b>Average</b>	1.11%	1.59%	2.25%	3.05%	2.83%



- 3.10.5 During the quarter ended 30 June 2016, the 50 year PWLB target (certainty) rate for new long term borrowing remained at 3%. (However, the target rate was cut to 2.20% on 4 July 2016 due to the sharp fall in gilt yields after the referendum.)
- 3.10.6 Given these recent movements it is likely that the Council will be considering its position in relation to borrowing.
- 3.11 **Compliance with Treasury and Prudential Limits**
- 3.11.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 3.11.2 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 3.
- 3.12 **Other**
- 3.12.1 **UK Sovereign Rating** - Standard & Poor have downgraded the UK Sovereign rating to AA from AAA with outlook remains negative, Fitch downgraded to AA from AA+ with outlook, changed to negative from stable, Moody's affirmed the rating at Aa1 with outlook changed to negative from stable. This is due to weaker economic and fiscal outlook.
- 3.12.2 In the light of the recent changes in the UK sovereign rating, officers continue to propose that the UK should still be excluded from its sovereign rating criteria overlay and that we will still invest in UK banks and building societies regardless of current UK sovereign rating. Although this has created an unexpected increase in risk and measures for treasury management, especially with the Council's large cash balance of some £400m. Therefore, at the individual/entity level, investment counterparties will still need to meet stringent criteria as laid out in the current investment strategy.
- 3.12.3 Officers are proposing a change to the council treasury management strategy for 2016/17, section 7.27 of TMSS annex A, by revising the maximum nominal value of overall investments that the council should hold for more than 1 year and less than 5 years from £50m to £100m (Investments with maturity over a year) The prudential indicator figure of £100m is therefore recommended.
- 3.12.4 Officers are also proposing a change to the money limit and duration of investments more than one year for part nationalised bank from current £25m and 3 years to £50m and 5 years duration. This is to enable the council the flexibility of placing more deposits with an institution part owned by the government and still received decent return from the transaction.

#### 4 **COMMENTS OF THE CHIEF FINANCIAL OFFICER (s151 Officer)**

4.1 The comments of the Corporate Director Resources are incorporated in the report.

#### 5. **LEGAL COMMENTS**

5.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

5.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the council wished not to follow it, there would need to be some good reason for such deviation.

5.3 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the council to adopt the strategies and policies proposed in the report.

5.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 also requires the council to have regard to the CIPFA publication "Prudential Code for Capital Finance in Local Authorities" ("the Prudential Code") when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the council. If after having regard to the Prudential Code the council wished not to follow it, there would need to be some good reason for such deviation.

5.5 The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the Audit Committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs.

- 5.6 The Local Government Act 2003 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority's borrowing, investments or capital expenditure, or for determining the authority's minimum revenue provision, is a matter that should not be the sole responsibility of the authority's executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Full Council.
- 5.7 The report sets out the recommendations of the Corporate Director Resources in relation to the council's minimum revenue provision, treasury management strategy and its annual investment strategy. The Corporate Director Resources has responsibility for overseeing the proper administration of the council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.
- 5.8 When considering its approach to the treasury management matters set out in the report, the council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty). A proportionate level of equality analysis is required and there is information relevant to this in section 17 of the report.

## **6 ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 Investment contributes to the achievement of the corporate objectives, including all those relating to equalities and achieving One Tower Hamlets. Establishing the statutory policy statements required facilitates the investments and ensures that it is prudent.

## **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the council optimises the use of its monetary resources within the constraints placed on the council by statute, appropriate management of risk and operational requirements.
- 7.2 Assessment of value for money is achieved through:
- Monitoring against benchmarks
  - Operating within budget

## **8 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no sustainable actions for a greener environment implication.

## **9 RISK MANAGEMENT IMPLICATIONS**

- 9.1 There is inevitably a degree of risk inherent in all treasury activity.
- 9.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.
- 9.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the council.

9.4 The council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the council has obtained independent advice from Capita Treasury Services who specialise in Council treasury issues.

10 **CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 There are no any crime and disorder reduction implications arising from this report.

**APPENDICES**

Appendix 1 – Investments Outstanding as at 30<sup>th</sup> June 16

Appendix 2 – Approved countries for investments

Appendix 3 – The prudential and treasury Indicators

**Local Government Act, 1972 Section 100D (As amended)**

**List of “Background Papers” used in the preparation of this report**

<b>Brief description of “background papers”</b>	<b>Name and telephone number of holder and address where open to inspection.</b>
	<i>Bola Tobun, x4733, Mulberry Place</i>

## Appendix 1

### Investments Outstanding as at 30 June 2016

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
<b>Overnight</b>					
	Aberdeen MMF		<b>MMF</b>	19.30	
	Blackrock MMF		<b>MMF</b>	9.90	
	BNP Paribas MMF		<b>MMF</b>	25.00	
	Deutsche MMF		<b>MMF</b>	25.00	
	Federated MMF		<b>MMF</b>	25.00	
	Insight MMF		<b>MMF</b>	25.00	
	Morgan Stanley MMF		<b>MMF</b>	4.65	
	SSGA MMF		<b>MMF</b>	4.70	
	Standard Life MMF		<b>MMF</b>	4.40	
	<b>SUB TOTAL</b>			<b>142.95</b>	
<b>&lt; 1 Month</b>	DZ Bank	04/01/2016	04/07/2016	10.00	0.69%
	Buckinghamshire County Council	23/06/2016	22/07/2016	5.00	0.50%
	LB Haringey	30/06/2016	29/07/2016	5.00	0.50%
	<b>SUB TOTAL</b>			<b>20.00</b>	
<b>1 - 3 Months</b>	Commonwealth Bank of Australia	05/08/2015	04/08/2016	5.00	0.84%
	Development Bank of Singapore	10/02/2016	10/08/2016	10.00	0.65%
	Lloyds Banking Group	13/08/2015	12/08/2016	5.00	1.00%
	Development Bank of Singapore	24/05/2016	24/08/2016	10.00	0.57%
	Australia & New Zealand Banking	30/06/2016	30/09/2016	10.00	0.52%
	<b>SUB TOTAL</b>			<b>40.00</b>	
<b>3 - 6 Months</b>	Santander (95DN)		Call - 95N	20.00	1.10%
	Skandinaviska Enskilda Banken	05/10/2015	05/10/2016	5.00	0.92%
	DZ Bank	05/04/2016	05/10/2016	5.00	0.68%
	Goldman Sachs International Bank	23/10/2015	24/10/2016	10.00	1.00%
	Principality Building Society	11/11/2015	11/11/2016	5.00	1.08%
	Helaba Landesbank	12/11/2015	11/11/2016	5.00	1.04%
	Goldman Sachs International Bank	12/11/2015	14/11/2016	10.00	0.95%
	Credit Suisse	20/11/2015	18/11/2016	10.00	1.03%
	Credit Suisse	25/11/2015	25/11/2016	10.00	1.00%
	Skandinaviska Enskilda Banken	07/12/2015	07/12/2016	5.00	0.85%
	Development Bank of Singapore	08/06/2016	08/12/2016	5.00	0.62%
	Commonwealth Bank of Australia	15/12/2015	15/12/2016	5.00	0.91%
	Bank of Montreal	15/03/2016	15/12/2016	10.00	0.72%
	Development Bank of Singapore	15/06/2016	15/12/2016	5.00	0.62%
	<b>SUB TOTAL</b>			<b>110.00</b>	
<b>6 - 9 Months</b>	Bank of Montreal	06/04/2016	06/01/2017	10.00	0.75%
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74%
	National Australia Bank	12/04/2016	12/01/2017	10.00	0.74%
	Bank of Montreal	19/04/2016	19/01/2017	5.00	0.74%
	National Australia Bank	19/04/2016	19/01/2017	5.00	0.75%
	Commonwealth Bank of Australia	23/02/2016	21/02/2017	5.00	0.90%
	Helaba Landesbank	26/02/2016	27/02/2017	5.00	0.92%
	Commonwealth Bank of Australia	14/03/2016	14/03/2017	10.00	0.92%
	Skipton Building Society	23/03/2016	23/03/2017	5.00	1.02%
	<b>SUB TOTAL</b>			<b>60.00</b>	
<b>9 - 12 Months</b>	Nationwide Building Society	12/04/2016	12/04/2017	5.00	0.95%
	Lloyds Banking Group	14/04/2016	13/04/2017	5.00	1.05%
	Lloyds Banking Group	15/04/2016	13/04/2017	5.00	1.05%

<b>Time to Maturity</b>	<b>Counterparty</b>	<b>From</b>	<b>Maturity</b>	<b>Amount £m</b>	<b>Rate</b>
	Nationwide Building Society	15/04/2016	13/04/2017	10.00	0.97%
	Nationwide Building Society	22/04/2016	21/04/2017	5.00	0.95%
	Newcastle Building Society	28/04/2016	28/04/2017	5.00	1.15%
	Lloyds Banking Group	29/04/2016	28/04/2017	5.00	1.05%
	Royal Bank of Scotland	05/05/2015	05/05/2017	5.00	1.45%
	Royal Bank of Scotland	08/05/2015	08/05/2017	5.00	1.45%
	Nottingham Building Society	09/05/2016	09/05/2017	5.00	1.03%
	Commonwealth Bank of Australia	12/05/2016	12/05/2017	5.00	0.99%
	Helaba Landesbank	03/05/2016	03/06/2017	10.00	1.01%
	<b>SUB TOTAL</b>			<b>70.00</b>	
<b>&gt; 12 Months</b>	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20%
	Royal Bank of Scotland	30/04/2015	30/04/2018	5.00	0.90%
	<b>SUB TOTAL</b>			<b>10.00</b>	
	<b>GRAND TOTAL</b>			<b>452.95</b>	

## **APPENDIX 2: Sovereign rating of countries for investments**

*Based on lowest available rating*

### **AAA**

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

### **AA+**

- Finland
- Hong Kong
- U.S.A.

### **AA**

- Abu Dhabi (UAE)
- Qatar
- France
- U.K.

### **AA-**

- Belgium

## Appendix 3: Prudential and Treasury Indicators

Prudential Indicators	2014/15	2015/16	2015/16	2016/17	2017/18
Extract from Estimate and rent setting reports	Actual	Original Estimate	Actual	Estimate	Estimate
	£m	£m	£m	£m	£m
<b>Capital Expenditure</b>					
Non – HRA	56.238	50.408	26.621	53.442	10.876
HRA	76.852	121.564	72.349	115.914	22.864
<b>TOTAL</b>	<b>133.090</b>	<b>171.972</b>	<b>98.970</b>	<b>169.356</b>	<b>33.740</b>
<b>Ratio of Financing Costs To Net Revenue Stream</b>					
Non – HRA	0.30%	0.52%	0.00%	0.00%	0.00%
HRA	3.70%	3.69%	3.94%	4.38%	4.38%
	£m	£m	£m	£m	£m
<b>Gross Debt and Capital Financing Requirement</b>					
Gross Debt	136.833	162.789	125.901	133.362	128.501
Capital Financing Requirement*	227.517	253.506	226.488	226.486	219.192
Over/(Under) Borrowing	(90.685)	(90.717)	(100.587)	(93.124)	(90.691)
<b>In Year Capital Financing Requirement</b>					
Non – HRA	0.000		0.145	0.150	0.000
HRA	0.000	21.804	5.016	8.360	0.000
<b>TOTAL</b>	<b>0.000</b>	<b>21.804</b>	<b>5.161</b>	<b>8.510</b>	<b>0.000</b>
<b>Capital Financing Requirement as at 31 March</b>					
Non - HRA	157.842	164.314	151.797	148.070	143.090
HRA	69.675	89.192	74.691	78.416	76.101
<b>TOTAL</b>	<b>227.517</b>	<b>253.506</b>	<b>226.488</b>	<b>226.486</b>	<b>219.192</b>
<b>Incremental Impact of Financing Costs (£)</b>					
Increase in Council Tax (band D) per annum	67.317	65.245	72.601	79.357	83.374
Increase in average housing rent per week	5.176	5.261	5.745	6.485	6.489
*excluding schools PFI schemes					

Treasury Management Indicators	2014/15	2015/16	2015/16	2016/17	2017/18
	Actual	Original Estimate	Actual	Estimate	Estimate
	£m	£m	£m	£m	£m
<b>Authorised Limit For External Debt -</b>					
Borrowing & Other long term liabilities	245.720	278.506	251.488	251.486	244.192
Headroom	20.000	20.000	20.000	20.000	20.000
<b>TOTAL</b>	<b>265.720</b>	<b>298.506</b>	<b>271.488</b>	<b>271.486</b>	<b>264.192</b>
<b>Operational Boundary For External Debt -</b>					
Borrowing	213.107	240.034	213.016	213.978	207.889
Other long term liabilities	39.410	38.472	38.472	37.508	36.303
<b>TOTAL</b>	<b>252.517</b>	<b>278.506</b>	<b>251.488</b>	<b>251.486</b>	<b>244.192</b>
<b>Gross Borrowing</b>	<b>136.833</b>	<b>162.789</b>	<b>125.901</b>	<b>133.362</b>	<b>128.501</b>
<b>HRA Debt Limit*</b>	<b>184.381</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>
<b>Upper Limit For Fixed Interest Rate Exposure</b>					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
<b>Upper Limit For Variable Rate Exposure</b>					
Net interest payable on variable rate borrowing / investments	20%	20%	20%	20%	20%
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	<b>£50m</b>	<b>£50m</b>	<b>£50m</b>	<b>£50m</b>	<b>£50m</b>
<b>Maturity structure of new fixed rate borrowing during 2016/17</b>			<b>Upper Limit</b>		<b>Lower Limit</b>
under 12 months			10%		0%
12 months and within 24 months			30%		0%
24 months and within 5 years			40%		0%
5 years and within 10 years			80%		0%
10 years and above			100%		0%

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