

# AUDIT COMMITTEE

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Monday, 30 June 2014 at 5.30 p.m.

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

This meeting is open to the public to attend.

**Members:**

Chair: Councillor Amina Ali

Vice-Chair:

Councillor Ohid Ahmed, Councillor Craig Aston, Councillor Rachel Blake, Councillor Alibor Choudhury, Councillor Ayas Miah and Councillor Gulam Robbani

**Deputies:**

Councillor Peter Golds, Councillor Andrew Cregan, Councillor Julia Dockerill, Councillor Danny Hassell, Councillor Denise Jones and Councillor Andrew Wood

[The quorum for this body is 3 Members]

**Contact for further enquiries:**

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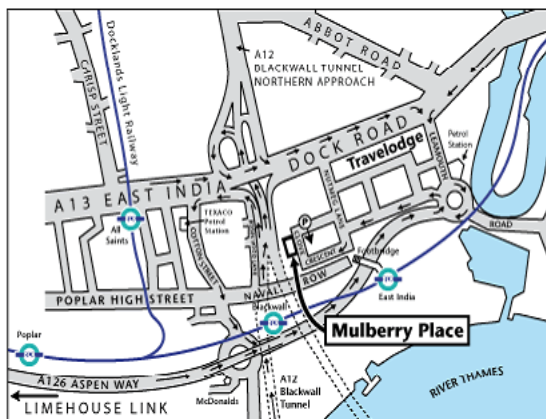
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## **APOLOGIES FOR ABSENCE**

### **1. ELECTION OF VICE-CHAIR**

To elect a Vice-Chair for the municipal year 2014/15

### **2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

**1 - 4**

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer.

### **3. MINUTES OF THE PREVIOUS MEETING(S)**

**5 - 14**

To confirm the minutes of the Audit Committee held on 18<sup>th</sup> March 2014.

### **4. AUDIT COMMITTEE TERMS OF REFERENCE, QUORUM, MEMBERSHIP AND DATES OF MEETINGS**

**15 - 22**

To note the Terms of Reference, membership, quorum and dates of meetings of the Audit Committee for the Municipal Year 2014/15.

### **5. TOWER HAMLETS ITEMS FOR CONSIDERATION**

#### **5.1 Annual Financial Report 2013/14**

Report to follow

#### **5.2 Internal Audit Annual Report for 2013/14**

**23 - 96**

To provide the annual internal audit opinion to committee in accordance with the Public Sector Internal Audit Standards.

#### **5.3 Annual Governance Statement 2013/14**

**97 - 122**

To Agree the Draft Annual Governance Statement for the financial year 2013/14.

#### **5.4 Risk Management annual Report 2013/4**

**123 - 146**

To note the Annual Risk Management report 2013-14.

**5 .5 Treasury Management Activity Update Report For Period Ending 30 April 2014**

**147 - 160**

To advise the Committee of treasury management activity for the previous financial year up to 30 April 2014.

**6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

**Next Meeting of the Committee:**

Tuesday, 16 September 2014 at 7.00 p.m. to be held in the Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

# Agenda Item 2

## **DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER**

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

### **Interests and Disclosable Pecuniary Interests (DPIs)**

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

### **Effect of a Disclosable Pecuniary Interest on participation at meetings**

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

### **Further advice**

For further advice please contact:-

John Williams, Service Head, Democratic Services, 020 7364 4204

## APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.12 P.M. ON TUESDAY, 18 MARCH 2014**

**ROOM MP702, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,  
LONDON, E14 2BG**

**Members Present:**

Councillor Carlo Gibbs (Vice-Chair, in the Chair)  
Councillor Judith Gardiner  
Councillor Stephanie Eaton  
Councillor Peter Golds (Substitute for (Leader of the Conservative Group)  
Councillor Craig Aston)

**Officers Present:**

Andy Bamber – (Service Head Safer Communities, Crime Reduction Services, Communities, Localities and Culture)  
Minesh Jani – (Head of Audit and Risk Management , Resources)  
Tony Qayum – (Anti Fraud Manager, Internal Audit, Resources)  
David Tolley – (Head of Consumer and Business Regulations Service, Safer Communities, Communities Localities & Culture)  
Chris Holme – (Acting Corporate Director - Resources)  
Kevin Miles – (Chief Accountant, Resources)  
Antonella Burgio – (Democratic Services)

**Others In Attendance**

Andrew Sayers – (KPMG)  
Antony Smith – KPMG  
Jamie Carswell – (Director of Investment, Tower Hamlets Homes)

**COUNCILLOR CARLO GIBBS IN THE CHAIR**

At the Chair's invitation all parties in attendance introduced themselves

## **Order of Business**

A request was made that the order of business be varied to enable item 4.1 to be considered as the first item of business. The Chair agreed following which the remaining business was considered in the order published. Accordingly the Chair **moved** and it was

## **RESOLVED**

That order of business be varied to enable agenda item 4.1 to be considered as the first item of business.

## **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Mizan Chaudhury, M.A Mukit and Craig Aston. Councillor Peter Golds attended the meeting as a designated deputy for Councillor Aston.

### **1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of disclosable pecuniary interests were made.

### **2. MINUTES OF THE PREVIOUS MEETING**

The minutes of the ordinary meeting held on 12 December 2013 were approved as a correct record of proceedings.

### **3. KPMG ITEMS FOR CONSIDERATION**

#### **3.1 External Audit Plan 2013/14**

The Engagement Partner, representing External Auditors KPMG presented the report informing the Committee that key risks would be the focus of the audit work to be undertaken. These areas were discussed in detail at section 4 of the report. Sections 5 and 6 of the report detailed the key financial statements, audit risks and the VFM audit approach.

In response to Members' questions the following information was provided:

- Concerning risks and audit work relating to Members' Enquiries (MEs) on the treatment of assets, the Committee was informed that these concerned surplus assets and disposal. The Audit Partner commented that the Council might look to scrutinise this area more generally.
- Concerning risks and audit work fees in relation to MEs, the Committee and was informed that this work was charged in addition to the scale fee. Members were advised that the charges did not include time lapsed between referral and conclusion of investigations but was based on an estimate of the work needed and of the time required to complete any investigations that the auditor considered were needed, based on reviewing the information provided. A Member suggested that, since the duration of works had been

estimated, this element might be included into the overall fee. Members were informed that the External Auditors were able to estimate costs for known factors. However other enquiries might arise during the course of such audit work and the effects of these could not be estimated, hence the decision to list fees for MEs separately. It was noted also that, under the current Audit Commission regime, extra audit work was to be itemised separately to the fee and that KPMG was accountable to the Audit Commission for any variation to the scale fees. (The scale fees are set by the Audit Commission for each Council.) A Member further suggested that, in view of the political arrangements at Tower Hamlets, fees for MEs should be incorporated into the overall audit fee. However the cost of abnormal enquiries was not to be a financial disincentive. The Audit Partner advised that it was not possible to provide an estimate but KPMG individually assessed each ME to determine which should or should not be investigated. Because of issues discussed and for other reasons work for audit of MEs were itemised and charged separately.

- Concerning whether an ME investigation might be declined because other organisations were more suited to undertake it, Members were informed that the External Auditor would first consider whether the enquiry fell within the auditor's remit and also whether the relevant investigative skills and expertise were available within the organisation. Reasons would be given where the Auditor declined to investigate a matter.
- Concerning whether lack of response from a local authority influenced whether an investigation would be taken up, Members were informed that delays did not have much effect on the cost of an investigation since no work was carried out whilst data was awaited.
- Concerning specific cost breakdowns of investigations, the Committee was informed that the Acting Corporate Director, Resources would provide a written response following the meeting.
- Members were informed that the Audit Act in force in 2014 had no particular impact on the auditor's work.
- A Member complained that the External Auditor often failed to send a written acknowledgement of receipt of an enquiry letter. The Audit Partner advised that the firm's normal practice was to give a holding reply pending further information.
- Concerning failure to respond to an ME related to the dismissal of £38,000 for an executive unsolicited letter, the Partner advised that the details of the query would be investigated and a response provided in writing.

## **RESOLVED**

That the report to be noted

### **3.2 Certification of Grants and Returns 2012/13**

The Audit Manager advised that unqualified certifications had been issued for grant claims and returns 2012-13 except for the housing and council tax benefits claim. As a result of the level of unqualified certifications, the fee had been significantly reduced and a further reduction was expected in the forthcoming year.

Members queried the reduction in additional tests for the housing benefit scheme and were informed that fewer errors had been found at initial testing and, in accordance with DWP protocols, less additional testing was required.

## **RESOLVED**

That the report be noted

## **4. TOWER HAMLETS ITEMS FOR CONSIDERATION**

### **4.1 Quarterly Assurance Report**

The Head of Audit and Risk Management presented the report. He summarised the work undertaken in the period December 2013 to February 2014 and noted assurance rating of each audit finalised in the period. He also reported the following audit performance:

- Under performance in audits undertaken in quarter 1 had been recouped.
- the Audit Team ensured that all priority 1 recommendations were implemented on time.
- a number of priority 2 recommendations remained to be implemented.

Four limited assurances had been returned and relevant officers were present to answer questions from the Committee.

#### *Assessment and Commissioning of Placements for SEN Children and Young Persons*

The Service Head, Learning and Achievement apologised that due to short notice, she was unable to attend the meeting to answer questions. The Head of Audit and Risk Management agreed to respond or, for more detailed answers, refer questions to the Service Head. He advised that:

- The audit examined systems of control and how SEN children were placed in independent schools in terms of clear evidence trails and VFM operated for multiple children places.
- There was good practice in regards to commissioning.
- A limited assurance had been returned because terms of reference were unclear and decision making was affected by poor attendance at Joint Commissioning Panel (JCP) meetings. Additionally he advised that the administration of the business group could be improved, and social workers better challenged to attend JCP meetings.

In response to Members' questions, the following information was provided:

Concerning where the authority to spend money resided, the Committee was informed that the Local Authority was authorised by the Health Authority. However the Health Authority's contribution was not clearly defined.

Concerning whether the absence of controls placed pressure on social workers to accept particular solutions, the Committee was informed that the service was looking to improve speed of decision-making as delayed or slow decisions might mean that children would have to accept interim accommodation and this could be detrimental.

### *Management and Control of Markets*

The Head of Audit and Risk Management advised that:

- The audit had been carried out to assess assurance on the Control of Markets Framework.
- The procedure for day-to-day management was compliant as was allocation of temporary and additional pitches.
- There were three areas of non-compliance. These were:
  - Dealing with arrears - these were not dealt with quickly.
  - Subletting - there was subletting of pitches which was a risk factor to the Council. It was also noted that processes were insufficient to detect sublet pitches.
  - Public liability insurance cover - in some cases inspectors had accepted lesser forms of proof of insurance cover.

The Service Head Community Safety and Head of Consumer and Business Regulations were present to answer questions from the Committee. The Service Head Community Safety informed Members that efficiency was impeded by the following factors:

- The last Market Panel meeting had been cancelled because accurate information on arrears was not available or provided to the market service from finance.
- Effective recovery of arrears was being hindered by the poor quality of the markets' data available to the Markets Panel.
- The Markets Control service experienced difficulties with software support provided by Agilisys and support from finance
- There had been issues around reconciling arrears using Agresso financial software.
- The issues were being dealt with as a priority. However the matter not only concerned markets but finance and agresso
- Subletting was a historic issue and additional staff had recently been recruited to address the matter. Additionally two officers had been recruited to look at the markets strategy and to eliminate subletting. It was noted that some markets crossed borough boundaries and here subletting was being addressed jointly with the neighbouring local authority. Management was working on these issues, some of which were linked to other corporate projects

In response to Member's questions the following information was provided:

Concerning the corporate impact of arrears, the Committee was informed that data management was the factor which affected performance. Accurate / up-to-date data was not available to the Market Panel therefore staff were unable to efficiently pursue arrears.

Concerning what actions THEOs were empowered to take upon discovering subletting, the Committee was informed that the licence conditions stipulate that holders should be present at their pitches and therefore inspectors would need to make several visits to verify the identity of a pitch holder. It was noted verification of subletting and holder identification were resource intensive tasks. Additionally subletting had other impacts such as discovery of thefts and often led to crime investigation.

Where subletting was discovered the licence of the stallholder was revoked.

Concerning whether THEOs were best deployed in this way, the Committee was informed that there was no additional bid for THEO resources since non-accredited THEOs were the original 'market officers' and funded by the market account.

The licence scheme was locally based and practices comparable with other local authorities and the Mary Portas initiative.

#### *Management and Control of Trading Standards Evidence Stores*

The Head of Audit and Risk Management informed the Committee that:

- This was a follow up audit.
- One of the priority 1 recommendations had been implemented in full and one remained to be completed hence a limited assurance had been returned.

Head of Consumer and Business Regulations informed the Committee that:

- The work of trading standards included the requisition, sample and testing of goods.
- A key issue in this regard was their safe storage and monitoring
- The issue that had been highlighted by the audit was tracking sequestered goods for which APP software was used.
- There had been shortcomings with the software and other methods and software had been investigated. These had also proved unsuitable.
- development work was now being undertaken on the APP software to provide a more bespoke application.

In response to questions, the committee was provided with the following information:

It was expected that the bespoke software would be implemented in July 2014

No prosecutions had been affected by the non-compliance as it was possible to demonstrate / identify whether or not stored sequestered evidence had been tampered with following requisition.

The non-compliance related to tracking goods that had been requisitioned. However trading standards had improved their paper audits so that all items from point of seizure could be tracked from point of seizure to the Court.

Officers were presently investigating how this process might be computerised and remain robust.

The bespoke package first trialled had not proved suitable because the system did not permit a spreadsheet to be created which was specific to each individual storage site. Additionally it would not interface with Civica, hence bolt-on software being developed for this purpose and APP Flaire software was being explored

#### *Aids and Adaptions Audit*

The Head of Audit and Risk Management advised that aids and adaptions service was comprised of two elements; assessment performed by the Council's Adaptions Team and implementation of the adaptions which was carried out by Tower Hamlets Homes. He noted that referral and allocations of aids and adaptions were compliant but a limited assurance had been assigned because:

- There was no post-works inspection regime of what value the works gave.
- There were performance issues.
- Some suppliers had not formally signed a contract.
- There was a delay in completion of some of the works sampled.

The Director of Investment Tower Hamlets Homes did not dispute the findings of the audit in broad terms. He also noted:

- A typographical error at page 61 of the report in that THH property services had initiated client post works inspections for 100% major works adaptions active from mid October 2013; the correction was noted.
- That the focus for their works had been on maintaining high standards and quality.
- That the arrangements with contractors had been improved and rationalised; That a post-inspection regime and associated KPIs had been put in place.

In response to Members' questions, the following information was provided:

Concerning how slippage in time taken to complete the works would be addressed, the Committee was informed that a target time of eight weeks maximum had been incorporated into the KPI's. The Director advised that seven of the 20 aids and adaption works sampled had been completed within 56 working days. Additionally he advised that new targets had been set; these were 10 days for urgent referrals and 20 days for non-urgent referrals.

Concerning why the contracts with Precision had not been signed, the Committee was informed that the contracts were four year framework contracts which initiated in 2012. The non-compliance had arisen because of a lack of follow-through and compliance discipline. This was now being built into the current contracts framework.

The Chair thanked the participating officers for their submissions.

He then noted that four priority 2 recommendations relating to the quality assurance on child protection services remained to be implemented and asked that the responsible officer attend at the next meeting to speak to speak on these outstanding matters.

### **RESOLVED**

That the report to be noted

#### **Action by:**

Minesh Jani (Head of Audit and Risk Management, Resources)

## **4.2 Annual Audit Plan for 2014/15**

The Head of Audit and Risk Management presented the report. He advised that some of the audits, in previous years, undertaken by Deloitte would in future be managed by Mazars. The proportion of the audit work to be managed had not changed. He also highlighted the planned areas of work, review of the risk registers, and the summary of the audit work days allocated to these.

In response to Members' questions the following information was provided:

Concerning the reduction of planned audit work days for Education, Social Care and Welfare audits, the Committee was informed that these areas had the second highest proportion of critical financial systems therefore this areas were given a significantly higher level of audit. This accorded with the overall risk assessment for service areas within the Authority. The Head of Audit and Risk Management advised that the allocation of auditor days could be reviewed if Members felt that additional resources were required. Additionally DMT had identified risks around adult services and asked that additional audit time available be dedicated to this area.

Concerning why management of sickness absence had been reintroduced into the audit plan, the Committee was informed that this had been done because

- sickness monitoring was a strategic management systems matter
- some time had lapsed since the last sickness absence audit.
- the proposed audit was also necessary as the Authority had recently introduced flexible working
- the Authority would shortly implement an online sickness reporting mechanism therefore it was necessary to ensure that sickness was reported at the right time to reduce the risk of overpayments

### **RESOLVED**

That the annual internal audit plan for 2014-15 as set out in Appendix 1 be endorsed



#### **4.3 Anti-Fraud and Corruption Strategy and Proactive Anti - Fraud Plan**

The Anti-fraud Manager introduced the report highlighting the following:

- some resources in antifraud investigation would be removed to DWP
- resourcing of antifraud investigations would be impacted by this change
- in view of this, it was planned to identify where activity could be maximised and where the Council's own data matching could be utilised
- the aim was to maximise external data matching and utilise available internal data matching
- up to £1.4 million could be recovered using data matching
- a typographical correction at page 139 was noted

Concerning fraud detection performance by DWP the Committee was informed that under present arrangements where a fraud was detected in one area it could provide an investigative lead via benefits records, this form of data matching might not be available in future and in Local Government, there general concerns around what data would be shared by DWP

#### **RESOLVED**

That the antifraud and corruption strategy and proactive antifraud plan 2014-15 be noted.

#### **4.4 Treasury Management Activity Update Report to 31 January 2014**

The Chief Accountant presented the report. He advised that although the Bank of England had maintained a low base rate, the Council's investments remained on target to achieve their budgeted returns. Additionally the investment portfolio had been expanded and an account opened with Svenska in order to better access short-term returns.

#### **RESOLVED**

That the Treasury management activity report period for the ending 31 January 2014 be noted.

**5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

Nil items.

The meeting ended at 8.43 p.m.

Chair, Councillor Mizan Chaudhury  
Audit Committee

# Agenda Item 4

<b>Committee</b>	<b>Date</b>	<b>Classification</b>	<b>Report No.</b>
Audit Committee	30 <sup>TH</sup> June 2014	Unrestricted	
<b>Report of:</b> Assistant Chief Executive <b>Originating Officer(s) :</b> Antonella Burgio, Democratic Services		<b>Title :</b> Audit Committee Terms of Reference, Quorum, Membership and Dates of meetings <b>Ward(s) affected: N/A</b>	

## 1. Summary

- 1.1 This report sets out the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year 2014/15 for the information of members of the Committee.

## 2. Recommendation

That the Audit Committee:

- 2.1 Notes its Terms of Reference, Quorum, Membership, and Dates of future meetings as set out in Appendices 1, 2 and 3 to this report.
- 2.2 Determines the preferred time at which the scheduled meetings will start if it decides that

## 3. Background

- 3.1 At the Annual General Meeting of the full Council held on 11<sup>th</sup> June 2014, the Authority approved proportionality, establishment of the Committees and Panels of the Council and appointment of Members thereto.
- 3.2 It is traditional that following the Annual General Meeting of the Council at the start of the Municipal Year, at which various committees are established, that those committees note their terms of reference, quorum, and membership for the forthcoming Municipal Year. These are set out in Appendix 1 and 2 to the report respectively.
- 3.3 The Committee's meetings for the remainder of the year, as agreed at the meeting of the Council on 11<sup>th</sup> June 2014, are as set out in Appendix 3 to this report.
- 3.4 The Constitution provides that, the meetings will take place at 7.30pm. The Chair and Audit Committee Members, in the past, have agreed the meetings will take place at 7.00pm in accordance with the programme of meetings for principal committees as this time is deemed to be more convenient for members and public. Any meetings that fall during the

holy month of Ramadan are scheduled to commence at 5.30pm. Members may wish to determine their own meeting time in the forthcoming municipal year

**4. Comments of the Chief Financial Officer**

Matters brought before the Committee under its terms of reference during the year will include comments on the financial implications of decisions provided by the Chief Finance Officer. There are no specific comments arising from the recommendations in this report.

**5. Legal Comments**

The information provided for the Committee to note is in line with the Council's Constitution and the resolutions made by Full Council on 11<sup>th</sup> June 2014.

**6. One Tower Hamlets Considerations**

There are no specific One Tower Hamlets considerations arising from the recommendation in the report.

**7. Risk Management Implications**

There are no specific Risk Management implications arising from the recommendations in the report.

**9. Crime and Disorder Reduction Implications**

There are no Crime and Disorder Reduction implications arising from the recommendations in the report.

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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 paper"

If not supplied Name and telephone number of holder

n/a

n/a

**AUDIT COMMITTEE TERMS OF REFERENCE**  
(Part 3 of the Council's Constitution April 2014)

**Delegation of Council Function**

FUNCTION	PROVISION OF ACT OR STATUTORY INSTRUMENT	DELEGATION OF FUNCTION
45. Duty to approve authority's statement of accounts, income and expenditure and balance sheet, or record of payments and receipts (as the case may be).	The Accounts and Audit Regulations 1996 (S.I. 1996/590).	Audit Committee

**Terms of Reference**

**3.3.11 Audit Committee**

<b>Membership:</b> Seven Members of the Council. Up to three substitutes may be appointed for each Member. The Audit Committee shall not be chaired by a Member of the Executive.	
<b>Functions</b>	<b>Delegation of Functions</b>
<ol style="list-style-type: none"> <li>1. To consider the Audit Plan and review the performance of Internal Audit against this target.</li> <li>2. To review internal audit findings and the annual report from the Head of Audit and seek assurance that action has been taken where necessary.</li> <li>3. To act as a forum for the external auditors to bring issues to Members' attention including both specific reports and general items such as the Annual Audit Letter and the Annual Governance Report.</li> <li>4. To be satisfied that the authority's assurance statement including the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.</li> <li>5. To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption.</li> <li>6. To consider reports of audit activity together with specific investigations.</li> </ol>	No delegations

7. To monitor the Authority's Risk Management arrangements and seek assurance that action is being taken on risk related issues identified by auditors and inspectorates.

8. To make arrangements for the proper administration of the Council's financial affairs and for the proper stewardship of public funds except the appointment of the Chief Finance Officer which shall remain the duty of the Council.

9. To meet the obligations of the Accounts and Audit (England) Regulations 2011 and the various statutory requirements in respect of the duty to approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be).

**Quorum**

Three Members of the Committee

**APPENDIX 2**

**APPOINTMENTS TO AUDIT COMMITTEE 2014-15**

<b>AUDIT COMMITTEE</b> (Seven members of the Council)		
<b><i>Labour Group (3)</i></b>	<b><i>Tower Hamlets First Group (3)</i></b>	<b><i>Conservative Group (1)</i></b>
<p>Cllr Amina Ali (Chair) Cllr Rachel Blake Cllr Ayas Miah</p> <p>Deputies:- Cllr Andrew Cregan Cllr Danny Hassell Cllr Denise Jones</p>	<p>Cllr Ohid Ahmed Cllr Alibor Choudhury Cllr Gulam Robbani</p> <p>Deputies:- t.b.c.</p>	<p>Cllr Craig Aston</p> <p>Deputies:- Cllr Julia Dockerill Cllr Peter Golds Cllr Andrew Wood</p>

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**AUDIT COMMITTEE**

**SCHEDULE OF MEETING DATES 2014-15**

- Monday 30<sup>th</sup> June 2014 (5.30pm)
- Tuesday 16<sup>th</sup> September 2014
- Tuesday 16<sup>th</sup> December 2014
- Tuesday 17<sup>th</sup> March 2015

**Note**

The meeting on 30<sup>th</sup> June 2014 is scheduled to commence at 5.30pm, as it falls within the holy month of Ramadan (26 June – 26 July)

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# Agenda Item 5.2

Report To: <b>Audit Committee</b>	Date <b>30<sup>TH</sup> June 2014</b>	Classification <b>Unrestricted</b>	Report No. 
REPORT OF: <b>Corporate Director, Resources</b>		<b>Internal Audit Annual Report for 2013/14</b>	
ORIGINATING OFFICER(S): <b>Minesh Jani, Head of Risk Management and Audit</b> <b>Bharat Mehta, Audit Manager</b>		WARD(S) AFFECTED: N/A	

## 1. Summary

- 1.1 This report provides the annual internal audit opinion in accordance with the Public Sector Internal Audit Standards. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).
- 1.2 The report concludes that the Council has a reasonably effective system of internal control which was in operation throughout 2013/14. The Head of Audit opinion is attached to this report at appendices 6 and 7 of this report.

## 2. Recommendation

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

### 3. Introduction

3.1 The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards. The Code advises that this report includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and presents a summary of the audit work undertaken to formulate the opinion.

3.2 This report is set out as follows:

- **Opinion and basis of opinion**
  - § **Summary of audit work undertaken in 2013/14**
  - § **Appendix 1 - Audit Charter**, setting out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.
  - § **Appendix 2 - Audit Resources**
  - § **Appendix 3 - Summaries of reports not previously reported.** Summaries of all audit reports are submitted to the Audit Committee.
  - § **Appendix 4 – Specific commissioned work from Corporate Directors.**
  - § **Appendix 5 – List of planned audits undertaken in 2013/14.**
  - § **Appendix 6 – Summary Head of Audit Opinion.**
  - § **Appendix 7 – Detailed Head of Audit Opinion.**
  - § **Appendix 8 – Benchmarking club/headline.**

### 4. Statement of Responsibility

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

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

## **5. Opinion**

- 5.1 It is my opinion that I can provide reasonable assurance that the authority has an adequate system of internal control and that this was operating effectively during 2013/14. The basis for this opinion is set out below.

## **6. Basis of Opinion**

- 6.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2013/14. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.
- 6.2 Internal audit work has been carried out in accordance with the Public Sector Internal Audit mandatory standards for Internal Audit in Local Government.
- 6.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.
- 6.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the External Auditors and other inspectors pertaining to or reported during 2013/14. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at appendices 7 and 8.

## **7 Audit Resources**

- 7.1 The resources available to Internal Audit are set out in appendix 2 below. Internal Audit is provided in partnership with Mazars (previously Deloitte) as part of Croydon Framework contract. An in-house team of four auditors works with resources provided under the Croydon framework arrangement.
- 7.2 The resources made available were adequate for the fulfilment of the Authority's duties. The partnership with Mazars has given the authority access to greater capacity, particularly in computer audit.

- 7.3 Productivity was maintained at planned levels. Sickness absence in the team was 2 days per person on average, the same as previous year.
- 7.4 During the year, there was an emphasis on carrying out risk based audits from the approved audit plan for 2013/14, which reflects the internal audit strategy in providing assurance to the Council over its systems of internal control to manage risks. The level of computer audit and contract audit has been maintained at a reasonable level throughout the year. In addition, a number of specific pieces of audit work were commissioned by Corporate Directors. Details of the work done are attached at Appendix 4.

## **8 Summary of Audit Work**

- 8.1 A list of the audits undertaken in 2013/14 is attached to main body of the report at appendix 5 including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and Full. Audits are also categorised by the significance of the systems. These are defined in appendix 2.
- 8.2 Summaries of the finalised audit reports are reported quarterly to CMT and the Audit Committee. Appendix 3 provides the summaries of those reports finalised in the period March to May 2014.
- 8.3 A summary of the audit assurance resulting from audit reports in 2013/14 is provided in the table below.

<b>Audits 13/14</b>		<b>Full</b>	<b>Substantial</b>	<b>Limited</b>	<b>Nil</b>	<b>N/A</b>
		<b>Significance</b>	<b>Extensive</b>	1	36	16
<b>Moderate</b>	0		23	11	2	3
<b>Low</b>	0		0	1	0	0
<b>Total</b>	1		59	28	2	6

- 8.4 The table shows that of 96 systems audits where we have issued final audit reports, 64% of the systems audited achieved an assurance level of full or substantial. Full or substantial assurance means that an effective level of control was in place, although this does not mean the systems were operating perfectly. 29% of systems audited were rated as limited or nil assurance, and the remainder 7% have their assurance as not applicable. In addition there were 19 audits currently at draft report stage and their assurances have not been factored into the above table as these assurances are waiting to be agreed. In total Internal Audit completed 114 pieces of audits during the financial year 2013/14.
- 8.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses.
- 8.6 From the Internal Audit work during 2013/14 financial year, we identified risks in the Council's systems in a number of areas including. management of planned maintenance programme management of competitive tenders and quotes, purchase cards, control and monitoring of declarations of staff interests, Ben Johnson Primary School, recruitment processes, control of DBS (CRB) checks, management of probationary tenancies, management of capital and revenue contracts and management of Council's property portfolio. We also reviewed the monitoring of funding awarded to the voluntary sector and raised recommendations to improve internal controls in these areas. Further information is provided at Appendix 7. Management have given commitment to implement our recommendations and this should in turn improve control environment in these areas.
- 8.7 From our Internal Audit work during 2013/14, we can provide an overall assurance that Tower Hamlets has a reasonably effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to audit recommendations.



## 9 Audit Performance

9.1 Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2013/14 is set out in the table below.

Performance Measure	2013/14	
	Target	Actual
Percentage of operational plan completed (to at least draft report stage) in the year	100%	98%
Percentage of priority 1 recommendations followed up that have been implemented by 6 month review date	100%	83% 19 out of 22 (*)
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	78% 39 out of 50

(\*) – we are informed 4 priority 1 recommendations have been implemented, and internal audit will test this in July 2014.

9.2 As at the 31st March 2014, 98% of the operational plan was completed in terms of days used. There were a few audits still in progress, but have now been completed/ or are awaiting management comments.

9.3 Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. For 2013/14 as a whole, 83% of priority 1 recommendations had been implemented against a target of 100%, and 78% of priority 2 recommendations had been implemented against a target of 95%. Corporate Directors are being regularly updated with the progress and performance of follow up audits and Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review.

- 9.4 The budget outturn is set out in appendix 2. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2012/13 will be submitted and key points will be reported to a future CMT and Audit Committee. The results of benchmarking exercise for 2012/13 are attached at Appendix 8. A benchmarking exercise for 2013/14 is currently in progress.

## **10 Comments of the Chief Financial Officer**

- 10.1 This report describes the annual internal audit report opinion for 2012-13 in accordance with the CIPFA Code of Practice for Internal Audit. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).
- 10.2 There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

## **11 Concurrent Report of the Head of Legal Services**

- 11.1 The council is required by regulation 6 of the Accounts and Audit Regulations 2011 to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices. It is appropriate to have regard to the CIPFA Code of Practice to determine what are proper practices.
- 11.2 The council is further required to conduct a review of the effectiveness of its internal audit at least once a year. The review findings must be considered by the council's audit committee as part of the consideration of the committee's consideration of the council's system of internal control. The subject report is intended to discharge these functions. The audit committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the council's constitution.

## **12 One Tower Hamlets**

- 12.1 The maintenance of an effective system of internal control assists the Council to meet its responsibilities in paragraph 4.1 above. This in turn contributes to the discharge of the Council's functions in accordance with

its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

### **13 Risk Management Implications**

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

### **14 Sustainable Action for a Greener Environment (SAGE)**

14.1 There are no specific SAGE implications.

## Internal Audit Charter

**This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.**

**The Charter will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.**

### **Purpose**

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Chief Financial Officer to help him discharge his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems. Further information around the purpose of Audit is set out in the Council's Financial Regulations (D3) and Financial Procedures (CR4).

### **Authority**

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

## **Responsibility**

The Council's Head of Internal Audit (The Head of Audit and Risk Management) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Tower Hamlets Homes. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

## **Reporting**

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Corporate Management Team (CMT) and the Audit Committee (AC). Both documents must then be presented to these bodies annually.
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of CMT. It is then presented to CMT and AC annually for noting and endorsement.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the AC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to CMT and AC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both CMT and the AC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to CMT and the AC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

### **Independence**

The Head of Internal Audit (the Head of Audit and Risk Management) has free and unfettered access to the following:

- Chief Financial Officer (Corporate Director, Resources)
- Head of Paid Service
- Chair of the Audit Committee (AC)
- Monitoring Officer
- Any other member of the Corporate Management Team

The independence of the Head of Internal Audit is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Head of Paid Service and the Chair of the Audit Committee contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the Governance Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

### **Due Professional Care**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Head of Audit and Risk Management and the Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

**Internal Audit – Resources 2013/14**

	<b>Revised Plan</b>	<b>%</b>	<b>Outturn</b>	<b>%</b>
In-house staff days	1000	61%	1160	63%
Deloitte / external	635	39%	669	37%
	<b>1635</b>		<b>1829</b>	
<b>Gross days</b>				
<i>less</i> Leave	124	56%	121	59%
<i>less</i> Sickness absence	15	7%	7	3%
<i>less</i> Non Operational Time	82	37%	75	38%
<b>Unproductive time</b>	<b>221</b>		<b>203</b>	
<b>Net productive days</b>	<b>1414</b>		<b>1626</b>	

**Internal Audit Budget 2013/14**

	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
<b>Salaries</b>	<b>435*</b>	<b>425*</b>	<b>-10</b>
<b>Contract costs</b>	<b>207</b>	<b>222</b>	<b>15</b>
<b>Running costs</b>	<b>32</b>	<b>35</b>	<b>3</b>
<b>Central Recharges</b>	<b>105</b>	<b>105</b>	<b>0</b>
<b>Gross cost recharged</b>	<b>779</b>	<b>787</b>	<b>8</b>

\*- includes the cost of three officers in the corporate fraud team.



## Internal Audit Reports 2013/14 – Summary of Audit Reports

### Assurance ratings

#### Level

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

#### Significance ratings

- |                  |   |
|------------------|---|
| <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.  |

**Summaries of 2013/14 audit reports not previously reported**

Assurance level	Significance	Directorate	Audit title
<b>LIMITED</b>			
	Extensive	Development and Renewal	Management and Control of Community Buildings Portfolio Follow Up audit
	Extensive	Communities, Localities and Culture	Procurement Below EU Threshold Follow Up Audit
	Extensive	Corporate	Control and Monitoring of Disclosure and Barring Service (DBS) Checks
	Extensive	Corporate	Management and Control of Purchase Cards
	Extensive	Education, Social Care and Wellbeing	Looked After Children
	Extensive	Corporate	Translation Services
	Extensive	Tower Hamlets Homes	Management and Control of Planned Maintenance Works - Systems Audit
	Extensive	Tower Hamlets Homes	Right To Buy – Systems Audit
<b>SUBSTANTIAL</b>			
	Extensive	Resources	Management and Control of In-house Temporary Resources Service
	Extensive	Resources	Housing Rents
	Extensive	Resources	Council Tax

Assurance level	Significance	Directorate	Audit title
	Extensive	Development and Renewal	Management and Monitoring of Facilities Management Contracts - Follow Up
	Extensive	Development and Renewal	Management of Asbestos and Legionella - Follow Up audit
	Extensive	Development and Renewal	Development Management Systems Audit
	Extensive	Tower Hamlets Homes	S 20 Major Works Consultation - Systems Audit
	Extensive	Tower Hamlets Homes	Decent Homes 2 Works Programme
	Moderate	Development and Renewal	Management and Control of Land Charges- Follow Up
	Moderate	Education, Social Care and Wellbeing	Sir John Cass School meals – Follow Up
	Moderate	Education, Social Care and Wellbeing	Malmesbury Primary School
	Moderate	Education, Social Care and Wellbeing	Harry Roberts Nursery School
	Moderate	Education, Social Care and Wellbeing	Olga Primary School
	Moderate	Education, Social Care and Wellbeing	Blue Gate Fields Infants School
	Moderate	Development and Renewal	Management and Control of Land Charges- Follow Up
	Moderate	Communities, Localities and Culture	Bow idea Store – Follow Up

Note – where “management comments” have been added in response to Limited or Nil assurance reports below, the internal audit team has not audited the comments.

**Limited Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management and Control of Community Buildings Portfolio</p> <p>Follow Up audit</p> <p style="text-align: center;">Page 40</p>	<p>Dec. 2013</p>	<p>This audit followed up recommendations agreed at the conclusion of the original audit finalised in June 2012. Out of six priority 2 recommendations made in the original report, four recommendations had not been fully implemented. There were still control weaknesses which made the system vulnerable to risk of errors, omissions, fraud and irregularities. In order to address control weaknesses, we have made six priority 1 recommendations. The following issues were reported:-</p> <ul style="list-style-type: none"> <li>• A number of organisations have not entered into a signed Tenancy Agreement with the Council. The necessary decision on evicting these organisations is outstanding.</li> <li>• Monitoring process was in place to ensure that the organisations were applying the community benefits specified in their original applications, including the permitted use and the continued use of the building (as per the lease agreement/tenancy at will).</li> <li>• The report from the external review of the Management of Community Halls and Rooms needed to be submitted to Development and Renewal DMT and the CMT for consideration and approval.</li> <li>• The Stage 1 - Gateway Eligibility Criteria forms showed the requirement to submit bank statements covering a period of 12 months. However, we noted that in one instance, significant sums of cash were deposited into the applicant organisation's bank account prior to the application being made to LBTH for the use of a community building. Such matters were not being identified and scrutinised by officers checking and processing the applications.</li> </ul>	<p>Extensive</p>	<p>Limited</p>



## **Management Comments**

### **Asset Management comments**

The Asset Management team is undergoing a review of its community buildings held within the Housing Revenue Account. In October 2013 all community building occupiers (CBOs) were written to reminding CBOs of their duty of care to users and visitors to public buildings. The letter contained a questionnaire requesting specific information on their occupation and the activities' that are carried out. The majority of questionnaires have been returned and the information is in the process of being analysed. The Asset Management team invited all community building occupiers to attend a series of in house Health and Safety training sessions. One session took place in February 2014 and another is scheduled for 22<sup>nd</sup> February. Consideration is being given to continuing these sessions on an annual basis to a) help educate CBOs as to their responsibilities as a building occupier and b) to encourage a stronger sense of partnership between the Council and its CBOs.

Of the 14 buildings noted in the Audit report that are operating without a formal tenancy agreement these are being actioned. All Ofsted registered groups have been offered a five year lease and the Council's legal team has been instructed to proceed with the conveyance. The other groups are being dealt with individually and it is hoped that the matter will be finalised within three months. Ultimately a decision needs to be made on whether to evict those remaining CBOs who refuse to sign a tenancy agreement or abide by the covenants therein

Asset Management has incorporated within its Marketing and Letting Procedure the process to be followed when re-letting a community building and selecting a new CBO. The selection process is led by the Third Sector Team with support from Asset Management. Asset Management carries out the marketing process and passes applications onto the Third Sector who in turn make recommendation to the Asset and Capital Strategy Board on tenant selection. The Marketing and Letting Procedure includes a section on informing the Insurance Section of any changes in occupancy or lease.

The Asset Management team does not investigate whether CBOs are applying the community benefits specified with the original applications. Asset Management carries out inspections of community buildings for purposes of estate management, that the property is being properly maintained and that the terms of the tenancy are being adhered to.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Procurement Below EU Threshold  Follow Up Audit	Dec. 2013	<p>The objective of this follow-up was to assess the progress of recommendations agreed at the conclusion of the original audit in October 2011.</p> <p>From our review, we have found that out of three priority 2 recommendations made at the conclusion of the original audit, one was implemented and two needed to be fully implemented and embedded into the business operation. Out of one priority 1 recommendation we followed up, we found that this was not fully implemented and embedded. The following issues were highlighted:-</p> <ul style="list-style-type: none"> <li>• Evidence of sourcing and using pre-set criteria for selecting suppliers for quotations was not always place.</li> <li>• Evidence of prioritising and considering local suppliers needed to be retained.</li> <li>• Criteria for evaluating quotations were not formulated and made known to bidders at the time of invitation.</li> <li>• Evaluation of quotations received was not clearly documented and the basis of final selection of successful supplier was not transparent and clearly documented. In one case a contractor seems to have been selected without evidence of any market testing.</li> <li>• Standard documents, such as award letters specifying conditions, requirements to have appropriate insurance and indemnity, compliance with the required quality standards and professional practices etc. were not always in place.</li> </ul> <p>All findings and recommendations were agreed with the Finance and Resources Manager and final report issued to the Corporate Director – Communities, Localities and Culture and Head of Paid Service.</p>	Extensive	Limited

## Management Comments

When the audit took place management had already identified the need to review the process and procedures. This was then communicated to all senior managers at the directorate Senior Management Group to ensure that managers are continually reviewing their procurement procedures including adherence to all financial regulations to ensure that they are firmly embedded within the directorates' processes.

A work group has been set up within the directorate with the aim of ensuring that there is standardisation of all documentation used and held by all officers. This is being undertaken in conjunction with the Head of Procurement as the documentation is currently being updated by the Procurement team.

Further work is being undertaken by the group that ensures there is a clear process for evidencing supplier information whilst maintaining the confidential nature of the information in a format that is easily accessed for review purposes.

The support services request form used across the directorate for raising orders has been updated to include a clear link to the procurement imperatives eight principles to ensure officers have fully considered them in undertaking the procurement process. Furthermore the form now includes evidence that quotations have been received from the appropriate level suppliers, required as part of the procurement process.

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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Disclosure and Barring Service (DBS) Checks	Dec. 2013	<p>This audit sought to provide assurance over the management and control of DBS checks (previously CRB). Our testing showed that although there were corporate procedures in place within HR and WD, there were some non-compliance issues within some areas at the Directorate and individual service level. The following issues were reported:-</p> <ul style="list-style-type: none"> <li>• Our review showed that a list of 6,815 posts across the Council was produced and sent to individual Service Heads on 17<sup>th</sup> May 2013 for review and identification of DBS Eligible Posts to carry out the necessary checks. However, at the time of reporting there were 2,171 posts which still needed to be reviewed by Directorates to ensure whether any of these posts were Eligible Posts. This increased the risk that posts requiring DBS checks were not identified promptly.</li> <li>• The monitoring control for ensuring DBS renewals are undertaken on a timely basis is not effective. We noted that a number of employees requiring renewals were not recorded on the HR master spreadsheet and were only identified as not having an up to date DBS check during the audit in May 2013.</li> <li>• There was no formal escalation process to Service Heads to ensure current employees fully co-operate in applying for renewal of DBS. This resulted in officers being reminded frequently to renew DBS and were still not compliant, increasing the risk of continuing in a post without the necessary DBS check.</li> <li>• Performance information is currently being produced on an ad hoc basis. However, it is the intention of the HR service to produce performance statistics for each directorate to identify the number of DBS checks undertaken, completed and those that are outstanding once all Service Heads have provided confirmation as to the status of DBS checks for their positions</li> </ul>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Disclosure and Barring Service (DBS) Checks	Dec. 2013	<ul style="list-style-type: none"> <li>From our testing, we found a number of inconsistent practices and gaps in documentary evidence for new starters, which increased the risk of employees starting employment without evidence of these checks.</li> </ul> <p>All findings and recommendations were agreed with the Service Head – Human Resources and Workforce Development and final report was issued to Corporate Director – Resources.</p>		

#### Management Comments

The Council has had an extensive list of posts for which a Criminal Records check is required in place since the Rehabilitation of Offenders (Exception) Order allowed such checks to be made. The Protection of Freedoms Act 2012 and the consequent establishment of the Disclosure and Barring Service (DBS) was accompanied by revised guidance on establishing posts (functions) which were eligible for a DBS check. These changes have led to a reduction in the number of posts that are required to be checked. As a result an extensive process of review on the list of existing posts requiring a check has been carried out with Service Managers, Service Heads and DMTs and it is this process to which the Audit report refers. The revised list of posts requiring a check is now complete. During the period when the process of review was being carried out the Council continued to request checks against the existing list.

An action plan has been implemented to ensure that re checks are conducted on time and that there is an escalation process in place where staff fail to co-operate in applying for renewal. Outstanding checks have now been completed. Processes have been revised to further ensure the quality of checks and that the appropriate documentation is provided. Guidance on the documents which should be used to verify identity has been reinforced to the teams carrying out checks and the Home Office will be commissioned to provide updated training.

Relevant HR&WD Managers have instituted an audit process to randomly check new starters and rechecks of existing employees to ensure verification checks are undertaken in accordance with DBS Code of Practice and Council policy.

Procurement of an e-Bulk system for securing DBS checks has recently been completed and the system will be implemented in August this year. This system brings with it improved and more efficient processes which also assist in minimising errors. The system will also facilitate the production of regular management information

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Purchase Cards	March 2014	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Purchase Cards system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• Testing of the sample of 10 new card applicants between April 2012 and February 2013 found two budget holder authorisation forms that were completed by officers who were not listed under the budget holder list obtained from Finance.</li> <li>• From review of the compliance report we found 19 cardholders, for whom in excess of 30% of their transactions had been imported (not reviewed by the card user to confirm the transaction and also not approved by the budget holder) and cross review found 11 of these cardholders (from the payment card database) were still active users as their card had not been suspended as required by the policy. Most notably, for one cardholder all nine transactions had been imported, but the card had not been suspended. Our review of 100% of the card transactions across the Council between July 2012 and February 2013 identified that 572 out of the total of 7,171 transactions had been imported (i.e. no review and no approval) and then paid (monthly statements are paid regardless of whether transactions have been authorised or not).</li> <li>• At the time of review, the system of reporting in relation to payment card spending analysis was undertaken on an annual basis. We have noted that with the organisational change, the procurement analyst role has been created to ensure that this reporting and spend analysis is undertaken and reported to senior management on a quarterly basis.</li> </ul> <p>All findings and the recommendations made were agreed with the Project Manager – Finance Transformation, and reported to the Senior Procurement Manager, Category &amp; Contract Management and the Interim Corporate Director of Resources.</p>	Extensive	Limited

**Management Comments**

The system controls for purchase cards are limited due to the limitations of the DCAL Purchase Card Payment System. Additional manual controls are being implemented around the system to resolve the control weaknesses. All card applications now require approval by the relevant finance manager. Reports showing unapproved transactions will start being issued shortly to Directorate Management Teams for retrospective action and forward monitoring of compliance. Spend analysis reports are now being issued quarterly. Listings of cards in use will be issued quarterly to Directorate Management Teams and finance managers for verification.

Title	Date of Draft Report	Comments / Findings	Scale of Service	Assurance Level
Looked After Children	Sept 2013	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Looked After Children system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• Our sample testing highlighted a large number of examples where documentation could not be located on Frameworki or incomplete documentation had ben uploaded to Frameworki and therefore we are unable to provide assurance that these cases had been processed in accordance with the Council's procedures.</li> <li>• For a sample of 10 children becoming looked after in the last 18 months testing found that in two cases previous educational provision could not be maintained after the child was placed. In one these cases the Virtual School failed to secure a new educational placement within 20 school days as required.</li> <li>• A statutory health assessment is required before a child is placed or within four weeks of placement. For the sample of 10 children becoming looked after in the last 18 months testing found In four instances a health assessment had not been carried out and in one instance a health assessment had been booked for the 12/3/14 (14 months after the child became looked after. In a further five instances the health assessment had not been completed within four weeks of the placement.</li> <li>• Health reviews are required at least every six months for under five year olds and 12 monthly for those over five. In two out six instances where an initial health assessment had been performed, a health review had not been performed following 12 months.</li> </ul> <p>All findings and recommendations were agreed with the Interim Service Head, Children's Social Care and final report was sent to the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Limited

### Management Comments

A detailed action plan has been put in place, which would cover the following areas:-

1. Social work staff to be reminded of the need to complete relevant forms and documentation
2. Managers within the CLA Service to complete case audits in accordance with the service requirements.
3. Completion of basic information in Framework I to be monitored through monthly Looked After Children Tracking Meetings. Staff failing to complete the required documentation, this should be highlighted through case work supervision.
4. Chronologies to be completed on all cases.
5. All care plans to be completed and updated.
6. Placement Information Record to be completed within 5 days of the placement
7. All Chairs Action to be loaded onto Fwi and all Records of the Entry to Care Panel to be loaded onto fwi.
8. Raise the profile of education as a vehicle out of exclusion for LAC by making 2014/2015. The Year of Education for Looked After Children in Tower Hamlets.
9. Attendance of looked after children in education are monitored on a daily basis by the LAC Virtual School. Where attendance falls below 87%, this is highlighted to social workers and the need for relevant intervention is discussed.
10. Review of the procedures relating to health assessments found them to be out of date and not reflective of current working practices. These procedures were last revised in December 2007.
11. Increase the resources available for monitoring the health of LAC within health services.
12. Services to be monitored through the LAC Health Group and through LAC Tracking meetings.

All above actions will be carried out between April and Sept. 2014.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Translation Services	May 2014	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Translation Services system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• Presently there is limited evidence of the Council having a signed contractual agreement with external translation supplier, Newham Language Shop, which accounts for 98% of payments to external suppliers of translation services.</li> <li>• We were unable to confirm whether regular contract monitoring meetings are held with the provider.</li> <li>• There are no Council-wide or service specific procedures on ordering of translation services from external providers. Through discussions with Admin Managers of the four services identified as the most frequent users of translation services it was confirmed that currently ordering procedures are not consistent across the Council and some of the processes followed are non-compliant with the Council's financial regulations.</li> <li>• Furthermore, there is no procedural requirement to check whether a specific need for translation services can be met by the in-house translation team prior to placing an order with external providers.</li> <li>• Separate translation fee budgets (object code: 5351) exist within services across all the Council's directorates against which payments to external providers are posted. It was noted, however, that records are not maintained of translation services provided by the in-house translation team to services across the Council. Therefore, costs incurred by the in-house translators are not recharged appropriately to services.</li> <li>• In 2013 a decision was made by CMT to transfer responsibility for contract management of Interpreting and Translation Services from Corporate Strategy and Equality to the ESCW Commissioning Team as the majority of users of these services are from ESCW. It was agreed that a joint LPG/ESCW steering group would be established to decide on a future</li> </ul>	Extensive	Limited

		<p>approach to procurement of external Interpreting and Translation Services and that once a new contract was in place management of this contract would be transferred to ESCW.</p> <p>As a number of these findings relate to the management of the in-house Interpreting and Translation Service all findings and recommendations were discussed with Service Manager for Family Support and Protection (ESCW) &amp; Service Head, Corporate Strategy and Equality and final reports were issued to the Head of Paid Services.</p>		
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**Management Comments**

The lack of a current contract has been noted and was identified as a priority within the Chief Executive's Category Management Plan for 2013/14. Activity to date includes :-

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1. Conduct a needs analysis on current demand for interpreting and translation services to inform procurement of third party service (completed).
2. Produce options appraisal of potential methods for meeting demand for interpreting and translation services (completed).
3. Agree favoured option and third party procurement approach and initiate appropriate procurement exercise (to be agreed by Project Steering Group (which brings together the Service Manager One Tower Hamlets, Service Manager Family Support and Protection (ESCW), Commissioning Manager (ESCW) and Corporate Procurement Category Manager (Res) by end June 2014).
4. Submit quarterly performance monitoring reports by Newham Language Shop to ESW Commissioning Team (began January 2014).
5. Hold annual performance review meetings with Newham Language shop (in place, first meeting scheduled for June 2014).

Existing S.17 procedures incorporate the requirements to use in-house interpreting services before approaching external services. This procedure is being reviewed and refreshed in the context of the audit report and circulated to the wider Social Care Teams. Consideration for a service specific Interpreting Procedure will be considered as part of the review of the In-House Interpreting Team.



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Planned Maintenance Works  Systems Audit	April 2014	<p>The objective of this audit was to provide assurance over the systems for managing, controlling, monitoring and delivering the planned maintenance works. Our review concentrated on four Framework Contracts viz. Communal Heating Boosted Water, Door Entry and Lift Renewals.</p> <p>Discussions with officers and examination records showed that Cabinet had approved a budget of £8.626M for planned maintenance works. However, actual spend recorded by officers up to 31st October 2013 was £1.035M. We noted that the financial slippage was not clearly reported and there was concern that the current year's programme would not be achieved.</p> <p>We found that as there was no contract that allowed for Replacement of Communal Boilers, the Repairs and Maintenance of Communal Heating contract was being used to carry out the replacement works. The rates charged by the contractor for these works were not market tested and benchmarked to demonstrate value for money. In addition we were not clear on the basis on which the contractor had added an element for overhead and profit (O&amp;P) for replacement works as the tendered O&amp;P figures were for repairs works.</p> <p>For the Lift works, it was found that payments of 10% of the total contract sum had been made to the contractor for the design and issuance of drawings, however there was no provision within the contract document that required officers to make an advance payment to the contractor.</p> <p>We understand that a new asset management software (Keystone) is to be introduced which will manage a number of weaknesses we identified. However, operational procedures needed to be developed to reflect the operational changes.</p> <p>All findings and recommendations were agreed with the Director of Investment and final report was issued to the Chief Executive.</p>	Extensive	Limited

## Management Comments

- Revised programme management arrangements have been put in place. This consists of robust monthly supplier meetings, monthly internal finance and progress reviews. The introduction of reserve projects allowing programme savings to be allocated to additional projects, thereby achieving the programme spend.
- An external review of commercial arrangements and operations on the GEM contract has been undertaken. This is currently being reviewed. Revised commercial arrangements are being introduced, drawing upon the expertise of the QS team in providing assurance as to the commercial operation of the contracts. A training and development programme has been developed for the project engineers to up skill the team and reduce the risk of repetition
- Newly procured contracts; live from September-December 2014, will allow delivery of the programme with OJEU compliant supplier arrangements. In the interim

Keystone deployment project continues to proceed. The successful deployment of keystone allows more accurate reporting of activity. In the interim the Quantity Surveying team is providing assurance on financial and delivery progress of the programme.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Right to Buy Systems Audit	April 2014	<p>The main objectives of the audit were to assure management that the systems for administration, management, control, valuation and approval of each sale under the RTB legislation are sound, secure and adequate; and that legislative requirements are complied with, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• Review of timeliness of the processing of RTB sales identified significant delays on behalf of THH which have resulted in sales not being completed in a timely manner. In addition, it was noted that there is no effective tracking system in place in respect of application processing.</li> <li>• Review of the 20 cases selected for testing found four cases in which evidence of ID checks being undertaken could not be located.</li> <li>• Valuations were not carried out in a timely manner in a large number of cases, increasing the risk of delays in the processing of applications.</li> <li>• Some valuations had been undertaken by graduate unqualified surveyors and these had not been cross-checked as part of the review process by a member of the senior asset management team, increasing the risk of incorrect valuations being processed leading to financial loss to the Council.</li> <li>• From the sample of 20 cases selected for testing, we identified one case in which the application was made jointly with a family member. However, review found no evidence that 12 months' worth of bank statements had been obtained to prove the residency at the address for the family member.</li> </ul> <p>All findings and the recommendations made were agreed with the Head of Leasehold Services (THH), and reported to the Interim Director of Neighbourhood Services (THH), and the Director of Development and Renewal.</p>	Extensive	Limited

## Management Comments

A new central database has been developed to track and progress RTB applications more effectively and in a timely manner. (Recommendation 1).

All ID checks are indexed on to the electronic filing system (Comino), newer applicants ID checks are carried out in admittance interviews when they apply and applications are not progressed until satisfactory checks have been carried out. These checks also include 12 months proof of residence for all family members and family members are denied until satisfactory proof of residence has been received. To ensure compliance, a random 10% sample is checked by the Service Head every month. (Recommendations 2, 6, 7, 8)

Valuations have been tendered out to external surveyors, Hilbery Chaplin, as a result valuations are now received within target timeframes and all valuations are now carried out by qualified RICS surveyors. (Recommendations 3, 4, 5)

The RTB team and LBTH Asset Management team share information about redetermination requests on a monthly tracker to ensure information is fed back and that inappropriate redeterminations are addressed. (Recommendation 9).

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**Summary of Audits Undertaken  
Substantial**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance
<p>Management and Control of In-house Temporary Resources Service</p>	<p>April 2014</p>	<p>This audit provided assurance that systems for engaging temporary staff to the pool and for individual placements to services were sound and secure.</p> <p>The council's In-House Temporary Resourcing (ITRES) service commenced from 1st April 2013. The team works with hiring managers to improve entry-level temporary opportunities for local residents and to reduce reliance on external agencies.</p> <p>Our review found adequate levels of control over the recruitment of temporary workers to the ITRES pool. Appointments had been made in accordance with prescribed procedures and documentation to support the application was found on files in most cases. Our initial testing found some information regarding Visa and residency status not on file, however this information was subsequently provided by officers as it was yet to be scanned to the applicants' files.</p> <p>Our review identified some slippage in the programme for some areas such as Passenger Assistants, Nursery Nurses, Housing Advisors and Caretakers. However, it was not clear whether this was reported higher up for further investigation so that necessary remedial action can be taken to achieve the Council's objectives. Some minor weaknesses were also identified with regard to the scoring of CV's and identification of interview panel members for which recommendations were made.</p> <p>All findings and recommendations were agreed with the Service Head, Human Resources and Workforce Development and final report was issued to the Acting Corporate Director of Resources.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Rents	May 2014	<p>The main objectives of the audit were to assure management that the systems for Housing Rents are sound, secure and adequate; and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• It was confirmed that the Rents Arrears procedures and the Former Tenant Arrears Recovery procedures available on the intranet were out of date, with the Rent Arrears procedures available dated August 2008 and the Former Tenant Arrears Recovery procedures dated January 2009.</li> <li>• It was also noted that no date of review was included on the Former Tenant Arrears Recovery procedures.</li> </ul> <p>All findings and the recommendations made were agreed with Director of Finance at Tower Hamlets Homes, and reported to the Chief Executive of Tower Hamlets Homes.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Council Tax	May 2014	<p>The main objectives of the audit were to assure management that the systems for Council Tax are sound, secure and adequate; and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• Testing a sample of 20 accounts with Council Tax exemptions identified two instances where the individuals had been put in prison until 2015. In both cases the exemption expiration date had been input on the IBS system as the prisoners release date. However, there was no evidence to suggest that checks had been undertaken to ensure the tenancy was still held by the prisoner or that the property had not been otherwise occupied.</li> <li>• Testing of a sample of 10 debt write-offs since 1<sup>st</sup> April 2013 identified one case where a debt had been written off, but was not recorded within the write off records and had not been reviewed and signed off by the Chief Officer and Chief Financial Officer.</li> <li>• Review of the daily and weekly cash reconciliations undertaken by the Revenue Services team identified that the reconciliation statement is signed by the preparer, but there is no evidence of independent review to confirm accuracy.</li> <li>• The amount allocated to the suspense account represents a significant amount of the receipts received for that period. In one instance, 108 transactions were undertaken totalling £46,704. The amount allocated to the suspense account represented 8% of receipts on that day.</li> <li>• There is no secondary review and sign off to confirm accuracy of the movements from the suspense account, and spot checks of the allocations are not undertaken.</li> </ul> <p>All findings and the recommendations made were agreed with Service Head, Revenues Services, and reported to the Interim Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Monitoring of Facilities Management Contracts  Follow Up	Feb. 2014	<p>This Follow Up audit assessed the progress in implementing the agreed recommendations at the conclusion of the original audit finalised in July 2012.</p> <p>Our review showed that out of one priority 1 and six priority 2 recommendations we followed up, some progress had been made. However, these recommendations needed to be embedded in working practices and implemented in full to improve the control environment around procurement and management of contracts within FM.</p> <p>Progress had been made with regards to governance of contract management, including improved procedural guidance and staff training. We recommended that the focus should be more on monitoring compliance with Council and local procedures. Our testing identified that areas for improvement included proper maintenance of the quotations book, updating the variations log and ensuring that the contract register was accurate and agreed with the corporate register. Management also needed to improve monitoring and reporting arrangements to ensure all contracts received sufficient and regular attention, including regular contract monitoring meetings with clear minutes, spot checks which were recorded and evidenced and an annual report to budget managers. Improvements were also required in managing variation control and annual reporting to budget holders.</p> <p>All findings and recommendations were agreed with the Service Head, Corporate Property and Capital Delivery and final report was issued to the Corporate Director, Development and Renewal.</p>	Extensive	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Asbestos and Legionella</p> <p>Follow Up audit</p> <p style="text-align: center;">Page 61</p>		<p>This follow up audit assessed the progress made in implementing the agreed recommendations made at the conclusion of the original audit in April 2013.</p> <p>Our follow up review showed that out of five high priority recommendations, all had been progressed. However, the improvement of control, risk management and governance depended upon the successful implementation and delivery of Corporate Landlord Functions within Development and Renewal Directorate and the Upgrade/Migration from CAPS (TF Facility) to TF Cloud, which needed to be monitored closely to ensure that the key objectives are achieved.</p> <p>We also found that the present CAPS system was not being updated accurately. Our testing found that out of the 22 property records we inspected, in 15 cases records had not been updated to reflect the current position with regard to the Asbestos and Legionella inspection regime.</p> <p>All findings and recommendations were agreed with Service Head, Corporate Property and Capital Delivery and final report was issued to the Corporate Director, Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Development Management  Systems Audit	March 2014	<p>The main objectives of the audit were to provide assurance to management that the systems of control around the Development Management system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• From our testing of 34 Development Management staff, we were unable to confirm that declarations of interest had been completed in 16 cases.</li> <li>• We identified a number of cases where Idox did not contain key documents relating to planning decisions. This is particularly relevant where cases are appealed by the applicant, since the bulk of the relevant documents are retained on hard copy file and not scanned into Idox until the case has been closed, i.e. the appeal has been decided. It should be noted that the documents were located on hard copy files, but this reduces the accuracy of the Idox system and increases reliance on the paper-based system which is not in accordance with management's objectives to increase the use of the electronic storage system.</li> <li>• From review of the 20 cases selected for testing, we identified 14 cases which were not advertised within eight days of validation, which is the in-house target and has been set in order to assist the service in meeting the eight week and 13 week targets for reaching decisions.</li> </ul> <p>All findings and the recommendation made were agreed with the Development Control Manager, and reported to the Service Head, Planning and Building Control, Development and Renewal and the Corporate Director, Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>S 20 Major Works Consultation</p> <p>Systems Audit</p>	<p>April 2014</p>	<p>The objective of this audit was to provide assurance over the systems in place for planning, managing and carrying out S. 20 consultations with the leaseholders. We tested a sample of 5 capital schemes.</p> <p>Our review showed that subsequent to commencement of the audit, procedural changes were introduced within the Team. Hence, Audit was unable to fully test the application of these new processes and procedures. However from our review of the documents, templates and tracking forms, we were satisfied that the new systems will improve the control environment giving greater level of accountability.</p> <p>Our testing S20 Consultations prior to these changes highlighted issues which were outside of the Team's control but did impact on their performance. For example, an effective procedure for undertaking a risk assessment on the impact of the works to vulnerable residents was needed. Issues and resolutions can then be included within the contract specifications and budgeted for within the capital programme.</p> <p>Final account audits needed to be carried out as soon as possible after the completion of the works in order to final leaseholder invoices for payment.</p> <p>A process needed to be put in place to consider engaging residents and leaseholders at an early stage during the planning of future major works programmes to ensure that the use of local knowledge can inform and prioritise forthcoming works programmes as well as preparing leaseholders of impending charges that may be expected within the formal Section 20 Consultation.</p> <p>An assessment of the likelihood and impact of non-collection of major works recharges based upon current collection and write off data needed to be carried out.</p> <p>All findings and recommendations were agreed with the Director of Investment and final report was issued to the Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Decent Homes 2 Work Programme	April 2014	<p>This audit examined the systems for monitoring and managing Decent Homes Year Two contract. The year two procurement process was undertaken through a measured term framework agreement which was valued at £4m for Lots 1 and 2. The contractor allowed a discount of 1.50% in their tender submission on the condition that both Lots were awarded to them. The contract specified a contract period from the 1st September 2012 to 31st March 2013.</p> <p>We were advised that THH had encountered issues at the start of the contract with concerns over the quality of the sub-contractors' work resulting in poor customer focus and poor property turnaround times. However, these concerns were escalated and an improvement plan was put in place.</p> <p>We found that there were adequate contract management and monitoring arrangements in place. Monthly valuations were carried out in accordance with the contract and the breakdowns which supported the valuations could be evidenced to the contractor's tendered rates.</p> <p>However, we noted that 1.5% discount was not deducted from interim payments. We were advised that the 1.5% discount was to be taken off at the final account stage. However, the process for administering the discount was not formally documented. In addition, the contract had not been executed by deed in accordance with Council conditions. Audit was advised by management that the decision for works to commence on site without an executed contract in place was knowingly taken as there were greater risks associated with non-delivery of GLA targets, if the programme of works had been delayed. Audit was further advised that the contractor had started the contract at their own risk.</p> <p>All findings and recommendations were agreed with the Director of Investment and final report was issued to the Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Sir John Cass Secondary School</p> <p>School Meals Income Follow Up</p> <p style="text-align: center;">Page 65</p>		<p>This follow up assessed the progress made in implementing the agreed recommendations.</p> <p>Our testing showed that out of four priority 1 and one priority 2 recommendations made, all had been progressed. Our review has shown that there are now systems and processes in place to ensure that there is greater control and accountability over the collection, deposit and reconciliation of school meals income.</p> <p>However, we noted that as the service is provided in-house, there should be trading account for this service so that the cost of the service, the level of charges for school meals and the resultant level of subsidy from the main school budget is more transparent. We therefore, made an additional recommendation in this area, which was not supported by the School Bursar.</p> <p>A report was made to the school's Finance and Premises Committee in October 2013. It was agreed that as all aspects of the meals (income and expenditure) were already shown in the school budget, that the Catering Staff and Midday Meal Supervisors salaries came out of the delegated budget and that the school organising their own meals gave flexibility, members agreed unanimously that they did not want to open a trading account for the above reasons. The Full Governing Body was to be informed on this decision on the 27<sup>th</sup> March 2014.</p> <p>The final report was sent to the Head teacher, the Corporate Director- Education, Social Care and Wellbeing and Service Head, Resources.</p>	Moderate	Substantial

## Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Malmesbury Primary School</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 66</p>	<p>Mar 2014</p>	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a 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>• Our review of the register established that declarations of interest had not been obtained from all governors, with five not having a declaration on file.</li> <li>• Testing a sample of three purchases over £5,000, identified that on two occasions only one quote was obtained. On the one remaining occasion there was only one viable supplier. However, no waiver form was completed.</li> <li>• Although income received at the administration office is counted out of sight of the general public behind several large filing cabinets, access to the administration office is only prevented by a waist high desk that could be easily bypassed.</li> <li>• It was noted during the audit that, although signed documents could be produced for all policies and procedures, it was often difficult to determine the location of the signed and approved document.</li> <li>• Review of the Resources Committee meeting minutes revealed that the minutes were not signed off for the meeting on 15<sup>th</sup> May 2012. Review of the School Improvement Committee meeting minutes revealed that the minutes were not signed off for the meetings on 13<sup>th</sup> March 2013 or 10<sup>th</sup> October 2012.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>	<p>Moderate</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Harry Roberts Nursery School	Mar 2014	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body which has overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Through review of the declaration of business interest forms for governors and staff with financial responsibilities it was established that four governors had signed forms in September 2012 which were more than 12 months old at the time of the audit. In addition, it was noted that the business interest forms for three governors were not in place at the time of the audit, but were completed subsequently. It was also noted that the business interest form for the Head Teacher had not been dated and therefore we were unable to identify when this was completed.</li> <li>• Through discussion with the Head Teacher and review of the meeting minutes, it was noted that the meeting of the Governing Body on June 25<sup>th</sup> 2013 was not quorate.</li> <li>• Through discussion with the Finance Officer and the Head Teacher it was understood that the school only conducts a quarterly budget monitoring exercise. In addition, through review of the quarterly budget monitoring report it was observed that the reports for January to June 2013 did not have evidence of review by the Head Teacher.</li> <li>• Testing a sample of 10 transactions identified that in one case for a procurement of £4,380, only one quote was obtained instead of the three required as per the Finance Policy.</li> <li>• Through review of the monthly reconciliations it was observed that the reconciliation reports were signed by the Head Teacher, but not signed by the officer who prepared them.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Olga Primary School	Mar 2014	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Finance and Personnel Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• There was no evidence to show that the minutes for both the Finance and Personnel Committee and the Curriculum Committee had been signed by the chair of the committee.</li> <li>• Testing of a sample of 10 transactions established that two transactions did not have an official order/requisition form where it was possible to raise one before purchase.</li> <li>• Testing of a sample of 10 transactions established that seven transactions did not have a signed delivery note or authorisation on the invoice to confirm the goods had been received.</li> <li>• Testing identified from a sample of one starter and one leaver that the EPM sheets which are used as starter and leaver forms had not been authorised by the Head Teacher. Furthermore, it was noted in the case of the starter that only one written reference had been received by the School, however, it was noted the Head Teacher had received a verbal reference.</li> <li>• There was no documentary evidence to confirm that payroll reconciliations were being completed on a monthly basis as the statements had not been signed or dated appropriately.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Blue Gate Fields Infants School	May 2014	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has a Full Governing Body and a Finance and Personnel Committee which have overall responsibility for financial planning and control. The school generally has good arrangements over the accounting for income and expenditure. The school to ensure that income due from school meals is identified, collected, and properly accounted for. The school has effective control over eligibility for free school meals offered by the local authority. The school has adequate risk management and insurance arrangements in place.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Through discussion with the Head Teacher and Finance Consultant, it was understood that staff with financial responsibility do not sign a declaration of business interests.</li> <li>• Through review of budget monitoring reports it was observed that no evidence of review by the Head Teacher was identifiable.</li> <li>• Through testing of a sample of 10 purchases made by the school since September 2012, it was observed that in two cases order forms were raised after invoices were received. Through discussion with the Head Teacher, it was explained that during this time the Finance Officer was off work and hence the order forms could not be raised in time. However, management was aware of the two purchases being made.</li> <li>• Through review of the payroll reconciliation reports since March 2013, it was observed that there was no evidence of review by the Head Teacher.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Land Charges  Page 70	March 2014	<p>The objective of this audit was to follow up recommendations made at the conclusion of the original audit.</p> <p>Our testing showed that out of 4 medium priority recommendations, two had implemented. The step by step guide on Land Charges had been produced and made available to all staff. A checking verification mechanism had been implemented to monitor newly input and amended information on the Land Charges Register. However, controls around the monitoring of these reports and production of reports on KPIs and targets around Land Charges needed to be strengthened.</p> <p>All findings and recommendations were agreed with the Service Head, Planning and Building Control and</p>	Moderate	Extensive

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bow Idea Store Follow Up	March 2014	<p>This follow up audit assessed the progress made in implementing the recommendations made at the conclusion of the original audit finalised in April 2013.</p> <p>Our testing showed that out of seven recommendations made, all had been progressed. However, there were areas where the control had not improved fully and management would need to monitor the embedding of these recommendations.</p> <p>We found that the fees and charges had been updated to include charges for lab bookings. However, there were issues with raising debtors invoices for lab bookings on the Council's financial system. Therefore monitoring of income received for lab bookings needed to be robust.</p> <p>An inventory was kept of assets held by the idea store and management now need to ensure that these are checked and signed off annually to demonstrate the integrity of the asset register. A stock take of books and other items at the Idea Stores was carried out as per the audit recommendation; however issues relating to the quality of the stock reports provided by the IT system had been identified by the service and were being looked into. In addition, the recommendation to set up a stock recovery company was still in progress.</p> <p>Improvements had been made relating to the banking and security of cash income collected, including the implementation of a second safe. However income collected and banked needed to be effectively monitored to ensure that the income is correctly put on the Council's accounting system.</p> <p>All findings and recommendations were agreed with the Head of Idea Stores and final report was issued to the Service Head, Culture, Learning and Leisure and Corporate Director, Communities, Locality and Culture.</p>	Moderate	Substantial

## Specific Commissioned Work by Corporate Directors

## Appendix 4

The Corporate Directors requested audit input in the following areas:-

- An Enquiry into the Appointment Procedure for the Post of Route Manager Transport Services Unit - Sept. 2013
- Bancroft Library Roofing Works – Pre-Contract Review - March 2014
- Probity Audit on Children’s Education Group - Nov. 2013
- Independent Testing of the new Accounts Payable financial system - May 2014
- Independent testing of the new General Ledger system - May 2014

## List of Planned Audits Undertaken in 2013/14

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Chief Executives</b>		
Freedom Of Information Act	Extensive	Substantial
Performance Management FU	Extensive	Substantial
Data Quality FU	Extensive	Substantial
<b>Education, Social Care and Wellbeing</b>		
Norman Grove and Bishop's Way Children's Homes	Moderate	Nil
Careers Service FU	Moderate	Substantial
Special Education Needs – Assessment and Commissioning	Extensive	Limited
Sir John Cass School – School Meals FU	Moderate	Substantial
Vulnerable Adults FU	Extensive	Substantial
Quality Assurance – Child Protection Services FU	Extensive	Substantial
Occupational Therapy FU	Moderate	Substantial
Looked After Children	Extensive	Limited
End of Year Reconciliation for Schools	Extensive	Substantial
Troubled Families Programme	Moderate	Substantial
Management of Panel Decisions	Moderate	Limited
Review of the Commissioning Lifecycle	Extensive	Tbc
Emergency Duty Team	Moderate	Substantial
Excluded Children	Moderate	tbc
Telecare Services	Moderate	Limited
Youth Services – monitoring arrangements	Extensive	tbc

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
Electronic Homecare System	Extensive	Substantial
Direct Payments	Extensive	tbc
<b>Schools</b>		
Ben Jonson School	Moderate	Nil
Columbia Market	Moderate	Substantial
Harry Roberts	Moderate	Substantial
Blue Gate Fields Infants	Moderate	Substantial
Cayley	Moderate	Substantial
Elizabeth Selby	Moderate	Substantial
English Martyrs	Moderate	Substantial
Guardian Angels	Moderate	Limited
John Scurr	Moderate	Substantial
Koby Nazrul	Moderate	Limited
Lansbury Lawrence	Moderate	Substantial
Lawdale	Moderate	Substantial
Malmesbury	Moderate	Substantial
Marion Richardson	Moderate	tbc
Olga	Moderate	Substantial
St Anne	Moderate	Substantial
St John's	Moderate	Limited
St Luke's	Moderate	Limited
St Mary/St Michael	Moderate	Limited
St Matthias	Moderate	Substantial
Shapla	Moderate	tbc
Stepney Greencoat	Moderate	Limited
Thomas Buxton	Moderate	tbc
Wellington	Moderate	Substantial
Cambridge Heath	Moderate	tbc
St Paul's Way	Moderate	tbc
Phoenix	Moderate	tbc
Stephen Hawking	Moderate	tbc

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Communities, Localities and Culture</b>		
Bow Idea Store FU	Moderate	Substantial
Pre-contract Audit – Bancroft Library Roofing Works	Extensive	N/A
Procurement for Goods, Services and Works below EU Threshold FU	Extensive	Limited
Food Inspection and Control	Extensive	Full
Pest Control	Extensive	Limited
Bulk Rubbish Collection	Extensive	tbc
Highways Inspections	Extensive	Limited
Horticultural Works	Moderate	Substantial
Leisure Services Contract Monitoring	Extensive	tbc
<b>Tower Hamlets Homes</b>		
S. 20 Major Works Consultation.	Extensive	Substantial
Management of Decent Homes Works	Extensive	Substantial
Management and Control of Planned Maintenance Works	Extensive	Limited
THH Governance	Extensive	Substantial
Probationary Tenancies FU	Extensive	Limited
Management of Voids - FU	Extensive	Limited
Water Systems and Testing - FU	Extensive	Substantial
Control and Management of Estate Parking	Moderate	Substantial
Tenancy Successions and Exchanges	Moderate	Substantial
Information Governance	Moderate	tbc
Housing Rents	Extensive	Substantial

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
THH Financial Systems	Extensive	Substantial
<b>Development and Renewal</b>		
Management of Mainstream Grants	Extensive	tbc
Building Schools for the Future – Post Contract Audit	Extensive	Substantial
Probity Review – Children’s Education Group	Moderate	N/A
Management and control of Facilities Management Contracts – Follow Up	Extensive	Substantial
Land Charges – Follow Up	Moderate	Substantial
Collection and Banking of Planning Fees – Follow Up	Extensive	Substantial
Lettings and Nominations – Follow Up	Extensive	Substantial
Management of Community Buildings Portfolio – Follow Up	Extensive	Limited
Management and Control of Asbestos and Legionella - FU	Extensive	Substantial
Overcrowding Strategy – FU	Moderate	Substantial
Monitoring Arrangements for WNF	Extensive	N/A
Development Management	Extensive	Substantial
<b>Resources</b>		
Photocopying and Printing Contract Monitoring	Extensive	Limited
In-house Temporary Resources Service	Moderate	Substantial



<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
Implementation testing of the new Financial Information System	Extensive	N/A
Management of Crisis Payments	Extensive	N/A
Competitive Tendering	Extensive	Limited
Occupation Health - FU	Moderate	Substantial
Budgetary Control	Extensive	Substantial
Recruitment	Extensive	Limited
Council Tax	Extensive	Substantial
NNDR	Extensive	Substantial
Creditors	Extensive	Limited
Debtors	Extensive	Tbc
General Ledger	Extensive	Limited
Housing Benefit and Council Tax Support Scheme	Extensive	Substantial
HR Payroll	Extensive	Substantial
Mobile Phones	Extensive	tbc
Housing Revenue Account and Medium Term Financial Plan	Extensive	Substantial
Treasury Management	Extensive	Substantial
Capital Programme and Accounting	Extensive	Substantial

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
Pensions	Extensive	Substantial
<b>Corporate Systems</b>		
Management and Control of DBS (previously CRB) Checks	Extensive	Limited
Declaration of Staff Interests	Extensive	Limited
Scheme of Delegation	Extensive	tbc
Contract Management and Monitoring	Extensive	Limited
Oyster cards FU	Low	Limited
Purchase Cards	Extensive	Limited
Translation Services	Extensive	Limited
<b>Computer Audit</b>		
Email and Exchange	Extensive	Substantial
Disaster Recovery	Extensive	Substantial
Applications Lifecycle Management	Extensive	Substantial
Malware Protection	Extensive	Substantial
Project Management	Extensive	Substantial
Parking – Chipside	Extensive	Limited

## Head of Audit Opinion – Summary

### Background

The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards. The purpose of this report is to:

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

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

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

### Head of Internal Audit Opinion on the Effectiveness of Internal Control 2013/14

This opinion statement is provided for the use of the Council in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2014.

### Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a

duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

### **The Purpose of the System of Internal Control**

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

### **The Internal Control Environment**

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

### **Review of Effectiveness**

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

### **Head of Internal Audit Annual Opinion Statement**

My opinion is derived from work carried out by Internal Audit Services during the year as part of the agreed internal audit plan for 2013/14, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2013/14 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

### **Basis of Assurance**

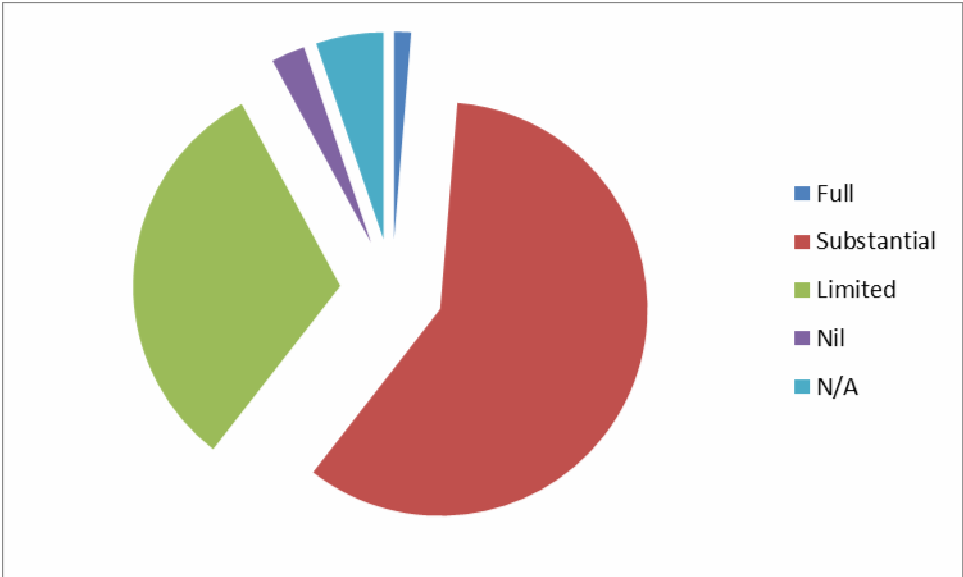
Audits have been conducted in accordance with the Public Sector Internal Audit Standards. The programme of work carried out during 2013/14 is at [Appendix 5](#).

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

98% of Internal Audit work for the year to 31 March 2014 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the CMT in 2013/14 are depicted in Graph 1 below. This shows that 66% of the systems audited achieved an assurance level of full or substantial assurance, whereas 29% of systems audited achieved limited or nil assurance. This is an adequate performance by the council.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. Given that 45% of priority 1 and 78% of priority 2 recommendations followed up had been implemented when the audit revisited the area, this is an area of concern and has been reported to the CMT and the Audit Committee previously. Stronger escalation procedures have been developed over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee.

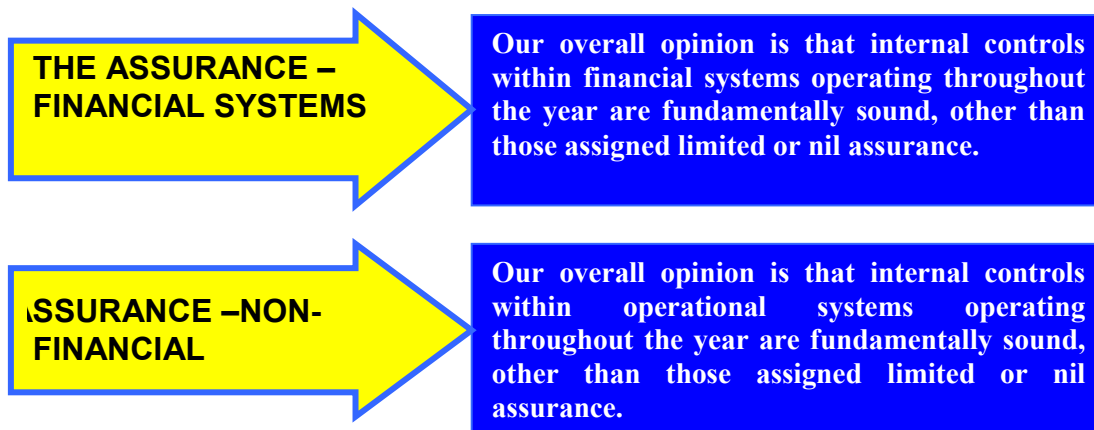
**Graph 1 – Levels of Assurance for 2013/14**



**2013/14 Year Opinion**

**Internal Control**

From the Internal Audit work undertaken in 2013/14, it is my opinion that I can provide a satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31<sup>st</sup> March 2014 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 80-83**. The assurance can be further broken down between financial and non-financial systems, as follows:



### **Risk Management**

In my opinion, risk management within the Council continues to be embedded, with increased emphases on buy in from staff, Member and the Corporate Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process. The Audit Committee will receive an **annual Risk Management report in June 2014.**

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

**Minesh Jani – Head of Audit and Risk Management**

**June 2014**

## DETAILED REPORT

### Introduction

This section is a report detailing:

- 1 any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- 1 any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- 1 the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- 1 the management processes adopted to deliver risk management and governance requirements;
- 1 comparison of the work undertaken during the 2013/14 year against the original Internal Audit plan; and
- 1 a brief summary of the audit service performance against agreed performance measures.

### Significant Control Issues

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2013/14. Key issues included:

### Management of Commercial Waste

The main issues identified were as follows:-

- There was no evidence available to confirm that the Council verified the sales income reports provided by Veolia.
- Key Performance Indicators (KPIs) were not measured against targets.
- There was no evidence available to confirm that Veolia provided the Council with a complaints report on a monthly basis as required by clause 43.3 of the waste management contract.
- There was no evidence available to confirm that the 2012/13 management fee of £717,500 was formally agreed by both parties.



## **Competitive Tendering**

The objective of this audit was to provide assurance that systems for managing and controlling competitive tenders for the purchase of goods, works and services were sound and secure and that EU Regulations were being complied with.

Our review showed that contracts were generally being tendered in accordance with EU Regulations and forward plans were being presented to the Cabinet. Advertisements had been placed on the OJEU and Council's web pages. Pre-Qualification procedures were in place and Questionnaires were being assessed.

However, comprehensive and coherent procedures and processes for both Directorate staff and for procurement staff needed to be put in place. Our review also showed that Tollgate reviews could not be evidenced in some cases, and decisions made had not been clearly documented or retained within the contract files held within the shared M-Drive. Although, both PQQ and tender evaluations had been undertaken, it was not always clear which officers were on the evaluation panel. Clear evidence was not always kept of tender evaluation reports which documented the outcome of the tendering exercise. We identified that tenders were received through a secure portal that included an audit history facility. However, no clear records of officers who witnessed the tender opening were kept. Our review identified two contracts which had been tendered by external consultants, however there no LBTH Officer present at the tender opening stage to ensure transparency and compliance with LBTH tendering procedures. Of the three contracts that had been awarded, only one contract was found to have been signed and sealed by the Council at the time of the audit. Although Directorate staff had devolved responsibility for managing the tendering process, there was no evidence of monitoring by Procurement as to whether procedures were being complied with by Directorate staff.

## **Management of Community Buildings**

This audit examined the systems for managing the Council's Community Building Portfolio including the allocations process for Council owned property to Third Sector Organisations. The Council's Asset Management Plan (AMP) sets out the strategy for the management and maintenance of its property portfolio, including Third Sector occupation of community buildings. The Councils owns approximately 80 community buildings and a vast majority are within the Housing Revenue Account

The following issues were reported:-

- A number of organisations had not entered into a signed Tenancy Agreement with the Council. The necessary decision on evicting these organisations is outstanding.
- No monitoring process was in place to ensure that the organisations were applying the community benefits specified in their original applications, including the permitted use and the continued use of the building (as per the lease agreement/tenancy at will). Therefore, there was no assurance that organisations occupying the buildings were complying with the permitted use clauses.

- The report from the external review of the Management of Community Halls and Rooms needed to be submitted to Development and Renewal DMT and the CMT for consideration and approval.
- The Stage 1 - Gateway Eligibility Criteria forms showed the requirement to submit bank statements covering a period of 12 months. However, we noted that in one instance, significant sums of cash were deposited into the applicant organisation's bank account prior to the application being made to LBTH for the use of a community building. Such matters were not being identified and scrutinised by officers checking and processing the applications.
- The assessment of the applicant organisation's current liabilities with the Council including any rent arrears needed to be adequately documented to evidence the checks undertaken.
- A system of quality checks / spot checks to monitor compliance with agreed procedures had not been introduced.
- A clear and workable system required to be put in place to ensure that the Council's Insurance section is immediately notified by Asset Management, whenever a lease renewal or change of occupancy takes place to ensure that insurable risks are adequately covered within the insurance policy.

## **Management and Control of Markets**

The main control weaknesses identified were as follows:-

- Traders with arrears are only followed up when Market Panels are held (historically bi-annually). We noted that only one Market Panel meeting had been held in the previous 12 months. Presently no members of staff in the Markets Service have access to the Council's debtors system. Therefore Market Services staff are unable to monitor payments and arrears.
- All nine traders who received warnings for outstanding arrears had been invited to the June 2012 panel hearing. Since the June 2012 had been cancelled, no further action had been taken for these traders. From our examination of outstanding amounts at June 2012 and at the time of audit (October 2012), we found that in eight out of nine instances, the arrears amount had increased as a result of trader not having paid further invoices received since June 2012.
- Market Services carry out ad-hoc investigations on reported sub-letting by other traders. However, as the service does not have the staffing resources to gather sufficient evidence, it cannot press for legal proceedings. Market Services also does not carry out pro-active work to identify instances of sub-letting. It is acknowledged by Market Services that levels of sub-letting activity are high in certain markets, with the Markets Licensing Manager estimating levels of up to 70% at some markets.
- No checks are performed to ensure permanent traders have renewed public liability insurance on an annual basis. Furthermore permanent traders are not required to present evidence of a valid public liability insurance certificate to market officers.

## **Management of Probationary Tenancies**

A full systems audit on Management and Control of Probationary Tenancies was undertaken in May 2011. Following this, a follow up audit was undertaken in May 2012 and this found that a number of agreed recommendations had not been implemented. Our review showed that of the five high priority recommendations made at the conclusion of the first follow up audit, only one had been fully implemented. Whilst Management had put controls in place to implement the remaining four recommendations, these controls were not effective due to non-compliance with procedures together with lack of good quality random checks by Team Leaders, weak records of settling in visits, poor scanning of records on Comino and weak monitoring by management. We were concerned that on the basis of our sample testing, the quality of statutory settling in visits, management checks and associated records would not support the awarding of secure tenancies. We have recommended that the quality of monitoring checks carried out by team leaders and absence of documents on the Comino system should be fundamentally reviewed by management.

## **Aids and Adaptation Works**

The following issues were reported:-

- Management has not specified the proportion of aids and adaptations works that should be subject to an inspection upon completion. In addition, THH does not report the outcomes of the inspections it undertakes to the Council. From sample testing of 20 cases, review found six cases (works above £1k) where no records of inspections being undertaken had been retained.
- The Council has established a set of business critical indicators to measure THH's performance. However, there is no evidence that indicators relevant to the performance of the aids and adaptations service, e.g. timeliness of completing works and percentage of post-works inspections undertaken, etc. have been developed and are included in any management reports either internally within THH, or to the Council.
- The preferred supplier of general maintenance and repairs works in respect of void properties is Mears Limited, the preferred supplier for installing door entry systems is Openview Limited, and for the installation of lifts, ceiling track hoists, step lifts, etc. is Precision Limited. There is a signed contractual agreement in place with Mears Limited, but there is no signed contract in place with Openview Limited or with Precision Limited
- Management has not specified the timescales for THH to complete adaptation works. From our audit testing, we noted that more than 56 days (eight weeks) had elapsed from the date that THH received the Occupation Therapist's referral to the date of completion for 13 out of the 20 aids and adaptation works in our sample.

## **Quality Assurance of Child Protection Services**

Our testing showed that the Quality Assurance Framework page under the Children's Social Care pages of the Intranet was significantly out of date. A revised Quality Assurance Framework was proposed and this needed to be approved and adopted.

An alert system for documenting concerns about care planning and practices was developed, and approved by the LSCB in April 2013 to be used across all statutory agencies. However, in order to provide complete audit trail, concerns about case planning or practice arising at child protection conferences or child in need reviews needed to be recorded in writing so that social workers and managers had written record and confirmation of performance/quality issues raised.

We also noted that Performance Surgery meetings were held to monitor reviews of children on CP Plan for long time, but the minutes of these meetings were brief and did not show any follow up on the actions agreed in the previous meetings.

## **Management of DBS (CRB) Checks**

The following control weaknesses were reported:-

- Our review showed that a list of 6,815 posts across the Council was produced and sent to individual Service Heads on 17<sup>th</sup> May 2013 for review and identification of DBS Eligible Posts to carry out the necessary checks. However, at the time of reporting there were 2,171 posts which still needed to be reviewed by Directorates to ensure whether any of these posts were Eligible Posts. This increased the risk that posts requiring DBS checks were not identified promptly.
- The monitoring control for ensuring DBS renewals are undertaken on a timely basis is not effective. We noted that a number of employees requiring renewals were not recorded on the HR master spreadsheet and were only identified as not having an up to date DBS check during the audit in May 2013.
- There was no formal escalation process to Service Heads to ensure current employees fully co-operate in applying for renewal of DBS. This resulted in officers being reminded frequently to renew DBS and were still not compliant, increasing the risk of continuing in a post without the necessary DBS check.

## **Management of Right to Buy Programme**

The main weaknesses identified were as follows:-

- Review of timeliness of the processing of RTB sales identified significant delays on behalf of THH which have resulted in sales not being completed in a timely manner. In addition, it was noted that there is no effective tracking system in place in respect of application processing.
- Review of the 20 cases selected for testing found four cases in which evidence of ID checks being undertaken could not be located.

- Valuations were not carried out in a timely manner in a large number of cases, increasing the risk of delays in the processing of applications.
- Some valuations had been undertaken by graduate unqualified surveyors and these had not been cross-checked as part of the review process by a member of the senior asset management team, increasing the risk of incorrect valuations being processed leading to financial loss to the Council.
- From the sample of 20 cases selected for testing, we identified one case in which the application was made jointly with a family member. However, review found no evidence that 12 months' worth of bank statements had been obtained to prove the residency at the address for the family member.

### **Management of Purchase Cards**

The following control weaknesses were reported:-

- Testing of the sample of 10 new card applicants between April 2012 and February 2013 found two budget holder authorisation forms that were completed by officers who were not listed under the budget holder list obtained from Finance.
- From review of the compliance report we found 19 cardholders, for whom in excess of 30% of their transactions had been imported (not reviewed by the card user to confirm the transaction and also not approved by the budget holder) and cross review found 11 of these cardholders (from the payment card database) were still active users as their card had not been suspended as required by the policy. Most notably, for one cardholder all nine transactions had been imported, but the card had not been suspended. Our review of 100% of the card transactions across the Council between July 2012 and February 2013 identified that 572 out of the total of 7,171 transactions had been imported (i.e. no review and no approval) and then paid (monthly statements are paid regardless of whether transactions have been authorised or not).
- At the time of review, the system of reporting in relation to payment card spending analysis was undertaken on an annual basis. We have noted that with the organisational change, the procurement analyst role has been created to ensure that this reporting and spend analysis is undertaken and reported to senior management on a quarterly basis.

### **Management of Planned Maintenance Programme**

The objective of this audit was to provide assurance over the systems for managing, controlling, monitoring and delivering the planned maintenance works. Our review concentrated on four Framework Contracts viz. Communal Heating, Boosted Water, Door Entry and Lift Renewals.

Discussions with officers and examination records showed that Cabinet had approved a budget of £8.626M for planned maintenance works. However, actual spend recorded by officers up to 31st October 2013 was £1.035M. We noted that the financial slippage was

not clearly reported and there was concern that the current year's programme would not be achieved.

We found that as there was no contract that allowed for Replacement of Communal Boilers, the Repairs and Maintenance of Communal Heating contract was being used to carry out the replacement works. The rates charged by the contractor for these works were not market tested and benchmarked to demonstrate value for money. In addition we were not clear on the basis on which the contractor had added an element for overhead and profit (O&P) for replacement works as the tendered O&P figures were for repairs works.

For the Lift works, it was found that payments of 10% of the total contract sum had been made to the contractor for the design and issuance of drawings, however there was no provision within the contract document that required officers to make an advance payment to the contractor.

We understand that a new asset management software (Keystone) is to be introduced which will manage a number of weaknesses we identified. However, operational procedures needed to be developed to reflect the operational changes.

## **Schools Audits**

During 2013/14 we carried out probity audits on 28 schools - 2 secondary, 24 primary and 2 nursery schools. A total of 4 of these schools received Limited assurance. The main issues raised were around the robustness of school governance, financial management, procurement controls, payment control, staffing control and inventory control. The common control weaknesses emerging from school audits and the actions required to improve controls have been summarised in an annual report. This has been issued to all schools so that there is awareness of good practice. Appropriate support is being provided by the Local Authority's Schools Finance team.

## **Contract Management and Monitoring**

Our audits on the Council's arrangements for monitoring various contracts found that effective contract management and monitoring was required. Clear corporate guidance on contract management of revenue contracts needed to be put in place to ensure that critical areas are effectively monitored throughout the life cycle of each contract so that benefits are derived from improved monitoring. Monitoring meetings needed to be more effective and benefits e.g. efficiencies and savings emerging from each procurement needed to be clearly identified.

## **Translation Services**

The following issues were reported:-

- Presently there is limited evidence of the Council having a signed contractual agreement with external translation supplier, Newham Language Shop, which accounts for 98% of payments to external suppliers of translation services.

- We were unable to confirm whether regular contract monitoring meetings are held with the provider.
- There are no Council-wide or service specific procedures on ordering of translation services from external providers. Through discussions with Admin Managers of the four services identified as the most frequent users of translation services it was confirmed that currently ordering procedures are not consistent across the Council and some of the processes followed are non-compliant with the Council's financial regulations.
- Furthermore, there is no procedural requirement to check whether a specific need for translation services can be met by the in-house translation team prior to placing an order with external providers.
- Separate translation fee budgets (object code: 5351) exist within services across all the Council's directorates against which payments to external providers are posted. It was noted, however, that records are not maintained of translation services provided by the in-house translation team to services across the Council. Therefore, costs incurred by the in-house translators are not recharged appropriately to services.

## **Looked After Children**

The main weaknesses identified were as follows:-

- Our sample testing highlighted a large number of examples where documentation could not be located on Frameworki or incomplete documentation had been uploaded to Frameworki and therefore we are unable to provide assurance that these cases had been processed in accordance with the Council's procedures.
- For a sample of 10 children becoming looked after in the last 18 months testing found that in two cases previous educational provision could not be maintained after the child was placed. In one these cases the Virtual School failed to secure a new educational placement within 20 school days as required.
- A statutory health assessment is required before a child is placed or within four weeks of placement. For the sample of 10 children becoming looked after in the last 18 months testing found in four instances a health assessment had not been carried out and in one instance a health assessment had been booked for the 12/3/14 (14 months after the child became looked after. In a further five instances the health assessment had not been completed within four weeks of the placement.
- Health reviews are required at least every six months for under five year olds and 12 monthly for those over five. In two out six instances where an initial health assessment had been performed, a health review had not been performed following 12 months.

### **Qualifications to the Opinion**

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

### **Other Assurance Bodies**

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

- a) Audit Commission
- b) Care Quality Commission
- c) Ofsted



## **Risk Management Process**

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

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

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

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

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

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

## **Comparison of Internal Audit Work**

The Operational Plan for 2013/14 was based on an Audit Risk Assessment. This assessment model takes into account four assessment categories for which each auditable area is scored to gauge the degree of risk and materiality associated with each area. Auditable areas were prioritised according to risk and a plan was prepared in consultation with Heads of Service, the Section 151 Officer and the Council's external auditors.

The Internal Audit plan was agreed at the start of the year and revised in December 2013. A summary of the revised plan is provided at Appendix 2 for information. The table compares the plan to the work actually completed during the year.

## **Internal Audit Performance**

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

Internal audit is subject to benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at Appendix 8.

External Audit continues to rely fully on the work undertaken by Internal Audit. This has resulted in the harmonisation of internal and external audit plans, so that external audit

can place greater reliance on the work of internal audit. During the course of the year we have worked closely with the External Auditors to ensure that this approach is followed.

### **Compliance with CIPFA Code of Internal Audit Practice**

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

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

External audit carried out a review of internal audit for the financial year 2009/10 and reported their findings in March 2010. The main conclusions of their review were: -

Internal Audit is compliant against the 11 code of the CIPFA code of Practice (applicable at the time);

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

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

Minor recommendations were raised were addressed.

Following the implementation of the Public Sector Internal Audit Standards in April 2013, Tower Hamlets will on a five year cycle, be subject to an independent peer review from the Head of Audit of another London borough. A peer review is planned for the next financial year. Findings from this review will be brought to the Audit Committee in due course.

## **Benchmarking Club Results**

### **1. Benchmarking Club Results**

- 1.1. Internal Audit has participated in the Audit Benchmarking Club administered by the Institute of Public Finance (IPF) since 1999/2000. IPF is a division of the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.2. The purpose of the benchmarking exercise is to provide comparative information which can form the basis upon which performance comparisons and value for money judgements can be made. Moreover, this information can also feed into the team planning process.
- 1.3. As part of the 2012/13 CIPFA benchmarking club the London Borough of Tower Hamlets was benchmarked against a range of Unitary Authorities selected either because the level of annual General Fund financial activity was similar, or annual total revenue, i.e., General Fund and HRA was similar. For the purpose of the benchmarking review the group with which LBTH internal audit was compared comprised 11 London Boroughs.
- 1.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £395 compared with the comparator group average of £391 per day. In comparison with the other London Boroughs, LBTH was a medium cost service. However, in terms of cost of the Audit service per million turnover, the group average was £649 against LBTH cost of £559, showing that the LBTH Audit service is relatively low cost as a whole.

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# Agenda Item 5.3

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	<b>30 June 2014</b>	Unrestricted		
REPORT OF: <b>Corporate Director, Resources</b> ORIGINATING OFFICER(S): <b>Minesh Jani</b> <i>Head of Risk Management and Audit</i>	Annual Governance Statement 2013/14 <b>Ward(s) Affected: N/A</b>			

## 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 2003. 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 – 7.4; and
- 2.2 Agree the Draft Annual Governance Statement for the financial year 2013/14 at Appendix 3.

## 3. Background

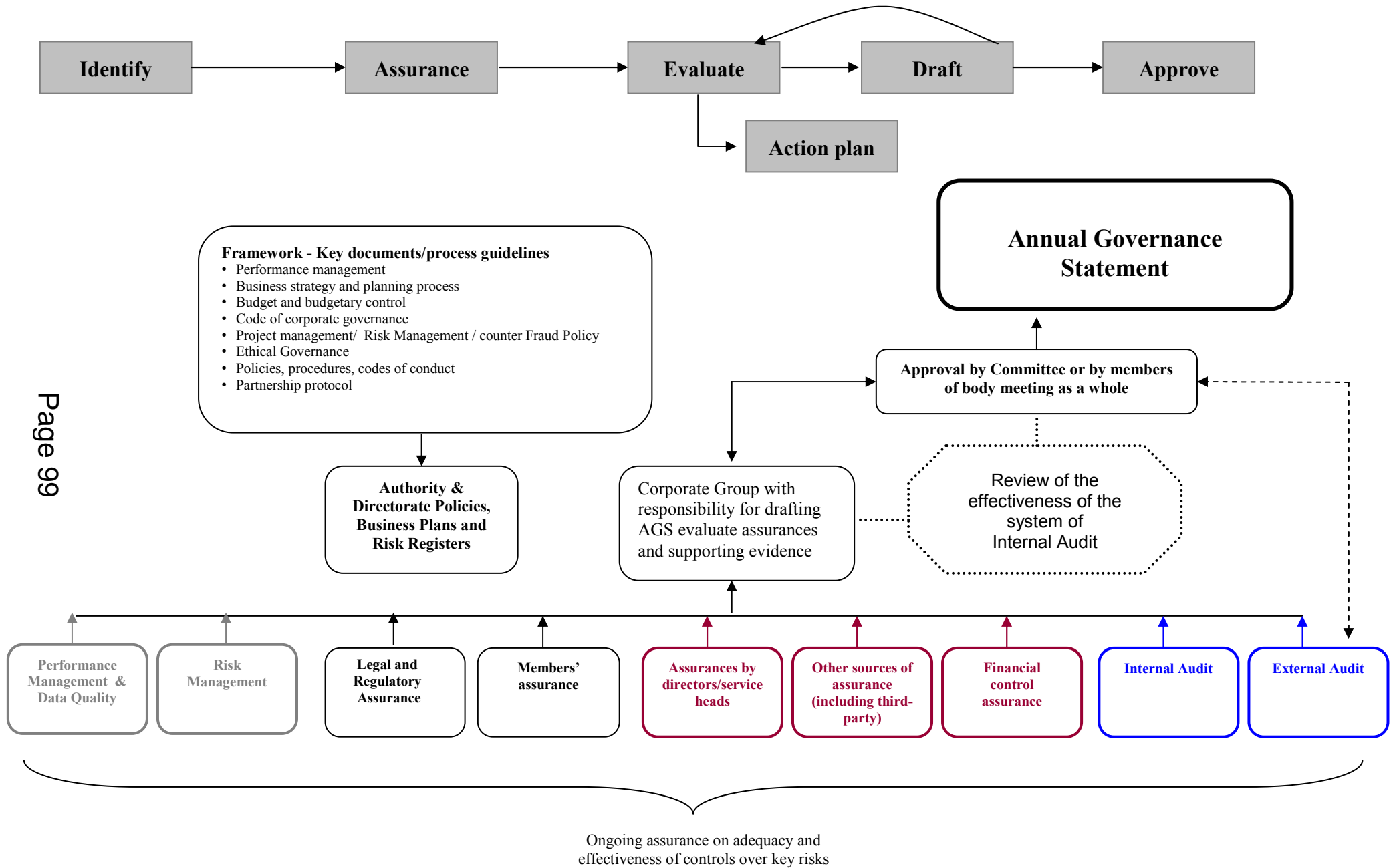
- 3.1 The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2010 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 Head of Paid Service 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 Head of Paid Service and the Mayor.
- 3.3 The statement needs to be completed by 30 June 2014, 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. This Assurance Framework is shown diagrammatically below. 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 2012/13 statement.

## Assurance Framework and the production of the Annual Governance Framework



## 5. Internal Control Environment

- 5.1 An internal control checklist was developed based on CIPFA guidance. This set out three key layers in the internal control environment:
- ◆ The processes for establishing statutory obligations and organisational objectives;
  - ◆ The processes for identifying the risks to the achievement of those objectives; and
  - ◆ The key controls to manage those risks.
- 5.2 A list of key policies and processes were identified for each area based on the guidance. These are set out in appendix 1 below. Evidence has been gathered to demonstrate that these exist and findings arising from these are considered in compiling the Annual Governance Statement for 2013/14.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which is published on the Tower Hamlets website, and is dated April 2014. The Council's governance arrangements have been subject to a review in 2013/14 and officers have assessed the Council's arrangements in line with the publication of the CIPFA/SOLACE Code on Corporate Governance (in June 2007). A report was presented to the Standards Committee with an action plan setting out additional steps the authority would take following an assessment against the code.
- 5.4 The Council has a Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.
- 5.5 No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.
- 5.6 No gaps were found in the arrangements for **identifying key controls to manage principal risks**. The Council has a robust system of internal control. Business Continuity arrangements have been revised and tested. In 2012/13 and 2013/14, the Business Continuity Planning team carried out a number of exercises. The Corporate Procurement Strategy was approved by Cabinet in November 2009 and the more recently, Cabinet has approved the Council's Procurement Imperatives setting out the Council's strategy around procurement.
- 5.7 Overall, the review found that the Council has all of the principal elements of an internal control framework.

## 6. Sources of Assurance



6.1 Having identified that the internal control framework contains the principal elements and that these can be evidenced, the principal sources of assurance were identified and evaluated. Matters arising from the review have been included within the AGS where appropriate and a summary of key sources of assurance are attached at Appendix 2.

## 7. Annual Governance Statement

7.1 The draft Annual Governance Statement is attached at Appendix 3.

7.2 The issues raised in 2012/13 are set out in the table below with an update showing their status.

Issues in 2012/13 statement	Status
Partnership structures – new arrangements are in the process of being implemented at locality / ward level and at strategic level.	The local community ward forum has been constituted and implemented and Cabinet has agreed the governance arrangements put in place. The forums have been well attended with three public meetings convened in the last financial year.
Risk identification within Communities Localities and Culture	Implemented. The directorate has put in place arrangements for the identification and management of risks including developing a protocol that has adopted by the directorate management team. The new arrangements have resulted in a structured approach to the management of risks with regular reporting of directorate risks to the directorate management team.
Recent audit reports and the Overview and Scrutiny Committee have asked that a comprehensive review is undertaken on the management arrangements for the control and monitoring of grants.	Following internal audit reports and Overview and Scrutiny, consideration is currently being given to proposals to improve the governance arrangements for third sector grant giving. This will include improvements to management functions and systems, controls and processes. This action has been referred to in the 2013/14 statement.
Pupil placement planning: expanding school provision to meet rising demand for places.	The directorate has identified the short term primary place needs (2014/15 school year) and the developed a technical feasibility of temporary school expansion.  Further steps are planned to strengthen the pupil

<b>Issues in 2012/13 statement</b>	<b>Status</b>
	projections by engaging the Greater London Authority with projections modelling to ensure the pupil planning is based on robust data. Current medium term expansion plans will continue to be implemented in to 2015/16. This action has been referred to in the 2013/14 statement.
Transition of Public Health to the Council.	The first year of operation has allowed the disaggregation of major contracts to be undertaken. A cautious approach has been adopted and over-commitments have been averted.
Embed the Council's use of the Virtual Desktop Infrastructure as part of the broader Smarter Working programme.	Implemented. The resilience of the virtual desktop has been enhanced over the last year resulting in improved availability and resilience both from the office and away from the office. The improved infrastructure will facilitate the organisation in deliver its broader smarter working agenda.
Implementation of the Finance Systems.	<p>The Council made a decision to replace its outmoded financial system to meet the evolving information needs of its users and the Council. The new system went live in May 2013 and working with the Council's Strategic IT partner, Agilisys, the new arrangements continue to be monitored to ensure that they deliver the expected benefits and enhanced systems of controls.</p> <p>During 2013/14, the finance team was also re-structured to better align the finance service to the needs of the organisation. During 2014/15, the new structure will be monitored and key roles filled and the Council's financial regulations and procedures refreshed.</p>
Update the local code of Corporate Governance.	On-going and referred to in the 2013/14 statement.
Update amendments agreed at the full Council meeting to the published constitution.	The Council's published constitution has been updated, dated April 2014. Procedural matters of the constitution have been referred to in the 2013/14 statement.

7.3 The penultimate section of the 2013/14 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows: -

- Youth Services Management of third sector procurement
- A comprehensive review of the management arrangements for the control and monitoring of grants
- Financial and workforce impact of delivering the new and revised duties within the Care Act (Care and Health Reform Bill)
- Pupil Place Planning to expand school provision to meet the rising demand for places
- Budget pressures for adult social care packages
- Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance
- Election and pre-election period
- Enhance the financial system
- Enhance contract management and contract letting process

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

8.1 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 2003. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.

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

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

9.1. The council is required by regulation 4 of the Accounts and Audit Regulations 2012 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.

9.2. 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.

- 9.3. In relation to what constitutes "proper practices" it is appropriate for the council to have regard to the relevant CIPFA code of practice.
- 9.4. 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.

## **10. One Tower Hamlets**

- 10.1 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.

## **11. Risk Management Implications**

- 11.1 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.

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

- 12.1 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 :**

*None*

*N/a*

### 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	Role of Head of Audit and Risk Management	Yes
	Performance Mgmt framework	Yes
	Performance Mgmt monitoring reports	Yes
	Inspection reports	Yes
<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

## Summary of reports received in or pertaining to 2013/14

Reports	Reporting period	Report date
Annual Audit plan – KPMG	2012/13 accounts	March 2014
Opinion on Financial Statements	2012/13	September 2013
Grant Claim Report	2013/13	February 2014
Report to those charged with governance (ISO260) 2012/13.	2012/13	September 2013
Report to those charged with governance (ISO260) Pensions 2012/13.	2012/13	September 2013
Other		
Protecting the public purse 2013	2012/13	November 2013
Protecting the Public Purse Fraud Briefing 2013 LBTH	2012/13	December 2013
Audit Committee-Fraud Briefing.	2012/13	December 2013
School Reports	2013/14	Various-2013/14
Children's Homes	2013/14	Feb/March 14
Complaints outcomes	2013/14	Various-2013/14
Audit Committee Terms of Reference,	2013/14	June 2013
Membership, Quorum and Dates of meetings.	2013/14	June 2013





**Draft Annual Governance Statement 2013/14**

Tower Hamlets LBC (Tower Hamlets) is 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 should enable 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 2003 as amended.

**1. Scope of Responsibility**

Tower Hamlets 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, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which 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 is scheduled to be reported in June 2013.

Tower Hamlets' has 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 Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. The Council's Standards Advisory Committee received an update in June 2013 of the Council's current local governance arrangements and the report recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements. A further review is underway.

**2. The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority directs and controls its activities and through which, it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its 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.

Tower Hamlets' 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 2014 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Advisory Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance. Following abolition of the Standards Board for England, local arrangements have been put in place including a code of conduct for elected members with a report being presented to the Full Council on 16 May 2012. The new regime operated from 1 July 2012.

### 3. The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

#### 3.1 Vision and Priorities

The Council's 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.

The Council is part of the Tower Hamlets Partnership with a vision to 2020 set out in the borough's Sustainable Community Strategy, known as the Community Plan. 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
- **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. The Council's strategic plan flows from the Community Plan themes and for 2013/14, 19 priorities were identified, ([http://www.towerhamlets.gov.uk/lgs/20001-20100/strategic\\_plan\\_2013-14.aspx](http://www.towerhamlets.gov.uk/lgs/20001-20100/strategic_plan_2013-14.aspx)). Within these broad themes, there are five strong priorities for the Council which the Mayor has made the centre-piece of his aspirations for the borough – these are:

- Increasing the availability of affordable family sized housing and reducing overcrowding;
- Improving attainment at age 16 and above and increasing activities out of school for young people;
- Further reducing crime and anti-social behaviour;
- Tackling worklessness; and
- Further improving cleanliness and the public realm.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others
- Valuing diversity
- Learning effectively

There was significant consultation with local people to develop the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people, culminating in the development of the Tower Hamlets Community Plan 2011. The Plan is due to be refreshed in 2014/15.

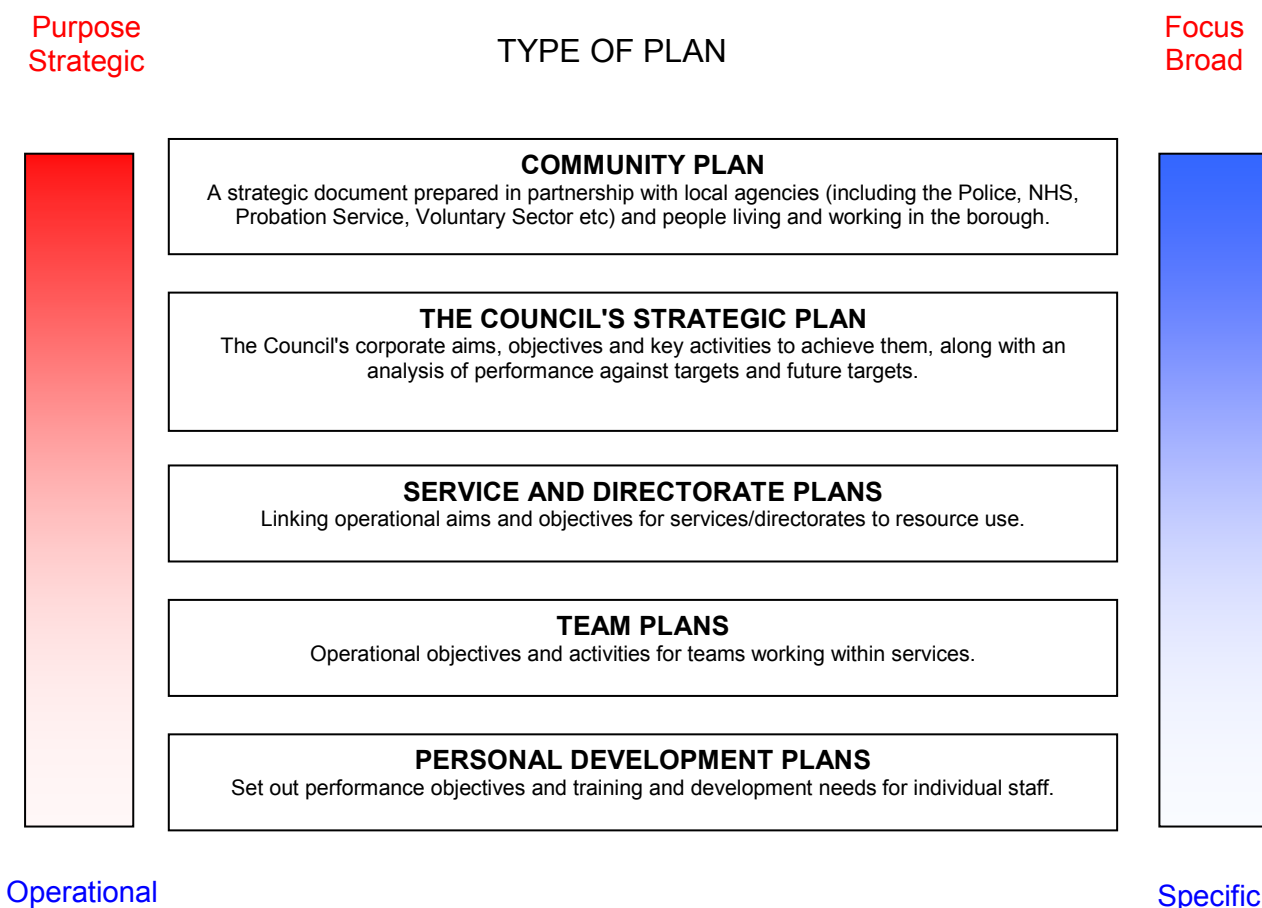
The vision, themes and priorities of the Community Plan are delivered through the Tower Hamlets Partnership structures which comprise the Partnership Executive, the Community Plan Delivery Groups (CPDGs), and localised governance structures.

The Community Plan falls within the Council’s Budget and Policy Framework. This requires that Overview and Scrutiny Committee are given 10 working days to comment on the draft plans, that the Mayor in Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. The Plan is subject to approval by Full Council.

**3.2 Corporate and Service Plans**

The overall planning framework is illustrated in the following diagram. As the diagram below shows, the Council aligns its Strategic Plan with the Community Plan and is structured 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 Overview and Scrutiny. The Community Plan is refreshed every three years.



The Council’s 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**

The Council operates 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.

The Council's Corporate Management Team (CMT), comprising the 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.

### **3.4 Council Constitution**

The Council has 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;
- codes of conduct for councillors and employees; 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, Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as the 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 will generally be discussed in a meeting open to the public.

In 2012, the Council requested a governance review of the constitution which was undertaken during 2013/14. This review has indicated that the constitution is fit for purpose and conforms with statute and best practice. The review has indicated that there are some areas of the constitution where we have options to expand or amend wording to clarify certain issues. The Interim Monitoring Officer is reviewing the work done to date and will develop an options paper for consideration by a new Constitution Working Party to be set up after the 2014 election.

The Council will consider and approve 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**

The Council has 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 above a certain grade

and those in certain decision making and procurement positions. 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.

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**

The Council's rules and procedure is part of four of the Council's Constitution. The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has 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 2013/14 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.

### **3.8 Audit Committee**

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.

Internal Audit is overseen by an Audit Committee comprising 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 Public Sector Internal Audit Standards. 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 2013/14.

### **3.9 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. 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. For 2013/14, the overall the control environment is adjudged 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 2014.

### **3.10 External Audit**

The Council's external auditors, KPMG, review its arrangements for:

- preparing accounts in compliance with statutory and other relevant requirements;
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have, in their annual audit letter and their assessment, commented upon the Council's accounts, corporate governance and value for money arrangements.

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

The Council has a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of a number of 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.

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 which is actively promoted with the number of whistle blows received during the year reported to the Corporate Management Team and the Audit Committee. The effectiveness of this policy and the type of issues raised are reviewed and monitored by the Audit Committee on an annual basis.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team continues to actively engage with the Audit Commission to test and improve the output from the NFI exercise.

### **3.12 Risk Management**

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.

During 2013, Zurich Municipal Engineering undertook a review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation. The risk team has developed an action plan and an Annual report which was also shared with the Audit Committee in June 2014.

### **3.13 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.

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 2013/14 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.

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

Value for money and continuous service improvement are secured through a range of processes, including the application of best value principles and the carrying out of efficiency reviews. During 2013/14, 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. KPMG's most recent assessment for value continues to be positive in the way the Council seeks to deliver value for money.

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.

### **3.15 Learning and Organisational Development**

The Council has 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.

### **3.16 Communication and Engagement**

The Council publishes numerous documents on its 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.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council on the perception of the services it provides and the experience of services users. Further, the authority uses its citizen engagement portal to engage with a wide range of stakeholders. The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

On a more local basis the Council has 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.

### **3.17 Partnerships**

The most significant partnership for the Council is the 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. The previously established eight local area partnerships whose role was to allow residents to influence their locality have been changed with the creation of Mayoral Assemblies. The Mayor's Assemblies are a new element of the structure and provide a mechanism for residents to engage with the Mayor, the Cabinet and cross agency public service providers at a local level.

The Council also has partnership arrangements with the clinical commissioning groups and the partnership has led on a number of public health programmes in recent months. 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.

The Council has 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

The Council has 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 internal control.
- Monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- The provisional outturn on the 2013/14 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 and the Mayor's Advisory Board.

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.

On 4th April the DCLG appointed PricewaterhouseCoopers 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 in relation to the authorities functions in respect of governance, particularly in respect of the authorities 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.

### Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2013/14 has identified some areas where action is appropriate to enhance the Council's governance. The specific actions are set out below and in all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

Governance Issue	Action taken and next steps	CMT Lead
Payments to third sector organisations outside Mainstream Grants.	<p>Following a whistle blow, internal audit findings from a review of an organisation that received payments from the Council raised concerns that have been reported to the police.</p> <p>A wider review of process management is underway covering all grant making and spot purchase functions.</p>	Corporate Director - Communities, Localities and Culture
A comprehensive review of the management arrangements for the control and monitoring of grants.	In view of the adverse publicity attracted by the current Mainstream Grant Programme, consideration is being given to proposals to improve the governance arrangements for third sector grants. This will include improvements to management functions and systems, controls and processes.	Corporate Director - Development and Renewal
Financial and workforce impact of delivering the new and revised duties within the Care Act (Care and Health Reform Bill).	<p>A Care and Health reform programme has been set up to oversee the implementation of the Care act. Work streams are planned out and risks identified, as follows: -</p> <p>Careful planning of the programme resources required and use of the grant money agreed.</p> <p>Programme Manager appointed within ESCW and is linked into the London region ADASS network that informs DH on funding issues. The Interim Corporate Director, Resources is a member of the Board.</p> <p>The next steps include development of work streams to identify workforce needs and issues that are being fed into a workforce lead in HR, which is linked to national and regional work.</p> <p>Careful planning of all work to deliver the changes to be through bespoke governance arrangements designed by the Programme Manager.</p>	Corporate Director - Education, Social Care and Wellbeing
Pupil Place Planning to expand school provision to meet the rising demand for	The directorate has identified the short term primary place needs (2014/15	Corporate Director -

Governance Issue	Action taken and next steps	CMT Lead
places.	<p>school year) and the developed a technical feasibility of temporary school expansion.</p> <p>Further steps are planned to strengthen the pupil projections by engaging the Greater London Authority with projections modelling to ensure the pupil planning is based on robust data. Current medium term expansion plans will continue to be implemented in to 2015/16.</p>	Education, Social Care and Wellbeing
Budget pressures for adult social care packages have emerged during 2013/14, which have been contained within existing directorate resources. The on-going position however points to an unfunded set of adults social care package.	<p>Action has been initiated by the directorate, which includes; transfer of management accountability to Adults Social Care service area; improved process, regularity and administration of care panels; and enhanced arrangements for identifying, monitoring and controlling costs.</p> <p>The next steps include the need to strengthen financial controls and lines of accountability; improved data quality and consideration of the policy framework.</p>	Corporate Director - Education, Social Care and Wellbeing
Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.	The Local Government Association reviewed the Council's constitution and indicated that the constitution is fit for purpose and conforms with statute and best practice. Further, recognising that there may be areas where the authority may learn from other authorities with the 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 of 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.	Monitoring Officer – Law Probity and Governance
Election and pre-election period.	Elections in Tower Hamlets are always vigorously contested and in the past there have been allegations of malpractice. These have been fully	Returning Officer – Law Probity and

Governance Issue	Action taken and next steps	CMT Lead
	<p>investigated by the police and Electoral Commission and none have been upheld. The Electoral Commission made various recommendations about improving the trust and confidence in the integrity of May 2014 elections, which have been implemented.</p> <p>The Electoral Commission has reviewed progress in the implementation of the recommendations and has strongly supported the steps that have been taken.</p> <p>Further action is planned to tighten up procedures around registration for, and management of postal votes. Other actions include; joint on-going working between the Returning Officer and police to deter and detect electoral fraud; local protocol committing all those involved in May 2014 elections to work towards free and fair elections; pre-election guidance reviewed and issued to all managers, staff and members and pre-election restrictions from 14 April including complete review of Council website and other publicity.</p>	Governance
<p>Enhance the financial system to maximise benefits derived from the enhanced functionality of the new finance system and refresh of financial regulations and procedures.</p>	<p>The Council made a decision to replace its outmoded financial system to meet the evolving information needs of its users and the Council. The new system went live in May 2013 and working with the Council's Strategic IT partner, Agilisys, the new arrangements continue to be monitored to ensure that they deliver the expected benefits and enhanced systems of controls.</p> <p>During 2013/14, the finance team was also re-structured to better align the finance service to the needs of the organisation. During 2014/15, the new structure will be monitored and key roles filled and the Council's financial regulations and procedures refreshed.</p>	Interim Corporate Director - Resources

Governance Issue	Action taken and next steps	CMT Lead
Enhance contract management and contract letting process.	<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>	Chair of Competition Board – Interim Corporate Director, Resources

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 their implementation and operation as part of our next annual review.

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Head of Paid Service

Date:

.....

Mayor

Date:

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# Annual Risk Management Report 2013/4

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Presented to the Audit Committee on  
30 June 2014

**Minesh Jani,  
Head of Audit and Risk Management**

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## **1.0 Introduction**

- 1.1 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. In addition this report highlights areas of the Risk Management team's activities and successes, performance information and a summary of the planned actions for 2014/5.

## **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. This following section focuses on the Risk Management service which 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 identified the following aims:

- A.** promoting 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).

- Preparation and publication of risk information on TH Net.
- Maintenance and development of the Risk Management Information System, known as JCAD Risk.
- Provision of risk training including members, and senior managers, new managers and staff as well as regular training opportunities on JCAD Risk.
- Promotion of Risk Management through, for example the regular Risk Talks (Lunch and learn sessions).

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 which 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.

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. 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 timetable 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. During July 2013, CMT identified a number of risks that have been subsequently added to the corporate risk register (see para 3.8 below).

### **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 Interim Corporate Resources Director and its members comprise of 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 (Council's Risk Management Information System) Risk every quarter;
  - Facilitate the embedding of risk management within the directorate;
  - 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 an 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 MAB.
- 3.7 A new innovation during 2013 was that corporate risk owners are 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 In July 2013, the Corporate Management Team undertook a review of the corporate risk register; they were aided in this task by the Risk Management team and ZM Risk Consultancy. The result of this exercise was an agreed set of 11 risks that all directors identified, set risk scores and determined the actions to mitigate them. There were a number of existing corporate risks that were subsequently added to the corporate register making a total of 17 risks. These are listed in brief below (para 3.10).
- 3.9 The current corporate risk register (as at 31/3/14) contained a total of 17 risks - 16 amber and one yellow. The definition of each of these risk ratings is set out in appendix 2.

Directorate	Risk Scores					Grand Total
	8	10	12	15	20	
CLC	0	2	1	0	0	3
D&R	1	1	0	2	0	4
ESCW	0	0	0	2	0	2
LPG	0	0	3	1	0	4
Resources	0	1	2	1	0	4
<b>Grand Total</b>	<b>1</b>	<b>4</b>	<b>6</b>	<b>6</b>	<b>0</b>	<b>17</b>

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

Key: **CLC** – Communities Localities Culture directorate  
**D&R** – Development and Renewal directorate  
**ESCW** – Education Social Care and Wellbeing directorate  
**LPG** – Legal, Probity and Governance directorate  
**Resources** – Resources directorate

Compared with the same period in 2013, the number of corporate risks increased from 12 to the present 17. This is a direct result of the CMT review of corporate risks which has seen a number of new risks added that were of particular concern to the management team (e.g. information governance).

The corporate risks and current risk scores (as at 31/3/14) are shown below in Table 2.

3.10	Risk Ref	Current Risk Rating	Risk Event	Directorate
	RSB0019	15	There is a risk that the Council may not be able to maintain financial viability/financial balance in 2015/16 and future years through to 2020.	Resources
	ESWRS0001	15	Council's inability to meet demand for school places	ESCW
	DRA0016	15	There is a risk that the Council may not be able to satisfy the rising housing need in the Borough	D&R
	ESW0001	15	Death or serious injury to a child or vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	ESCW

DRD0010	15	Council's estate not effectively managed	D&R
LPGLS0002	15	Information Governance Framework may be viewed as not fit for purpose	LPG
PRPS0031	12	Secondary legislation put in place by April next year stopping Local Authorities using CCTV for parking enforcement.	CLC
LPGSE0001	12	There is a risk that the Council may not be able to achieve "One Tower Hamlets" and community cohesion	LPG
RSB0022	12	Increased acts of significant fraud or corruption (both internal and external)	Resources
PPM0016	12	There is a risk that the Council may not be able maintain its supply chain	Resources
LPGLS0001	12	Non-compliance with corporate governance procedures	LPG
LPGCOM0003	12	There is a risk that the Council may not be able to effectively manage the reputation of the Council	LPG
DRA0009	10	There is a risk that the Council may not be able to deliver Decent Homes programme	D&R
CL0033	10	Civil Protection and Business Continuity Plan There is a risk that, should a major incident take place affecting Council services, there will be insufficient back up arrangements in place. There is a risk to Town Hall services without the generator in place that services would cease to operate for the duration of any outage.	CLC
CL0031	10	There is a risk that the 'Corporate Health and Safety' requirements may not be followed as stipulated.	CLC
ICT-SP0009	10	There is a risk that the Council may not be able to maintain the expanded PSN (was GCSx CoCo) re-accreditation to allow central government connectivity/access.	Resources
DRF0006	8	There is a risk that the Council may not be able to develop and improve the employment skills within the Tower Hamlets community	D&R

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 2013/4 the team has provided support to a number of areas within the council including Parking and Mobility Services, Information Governance and the Savings programme. Support can take various forms including the provision of advice and guidance as well setting up risk processes and training.

Below are two examples where the Risk Management's team has produced positive service improvements.

- 4.2 **Parking and Mobility Services:** This service adopted a thorough Risk Management approach across all teams to ensure the delivery of its new vision and mission brought in by a new management approach.

Risks for each objective in its Service Plan were formalised as part of the new Risk Management initiative with control measures initiated and put in place to mitigate the risks which have a large impact on the Council, service, community and environment. Risks were and continue to be monitored and managed by staff and managers across the service and an increased fortnightly focus on risks in the Parking & Mobility Team Management meetings now take place.

The Risk Management team delivered training as part of a cohesive approach to ensure understanding and a correct approach to Risk Management. As a result of this new approach it helped the service increase its efficiency and met all the objectives included in the 2013/4 Service Plan. This performance has been recognised internally and externally and in particular through becoming a finalist in the British Parking Awards 2014 in March, Tower Hamlets Staff Awards and improved performance.

- 4.3 **Information Governance: Paper Based Risk assessment project.** The Risk Management team were requested to provide support to a project initiated by the Information Governance Group. The project was established to ensure that the council's paper based records were being handled appropriately (i.e. stored and destroyed in manner that did not compromise data integrity, or breach Data Handling procedures). It also supported the council's approach in complying with the Data Protection Act.

The Risk Management team provided a new risk process and supported briefing sessions for directorate representatives. It also supported and chaired a Challenge group which scrutinised medium and high risk assessments with senior managers.

This Risk based approach proved remarkably successful. Directorates responded well to the provision of the risk information and achieved this within the required timescales. It enabled scrutiny of the full risk assessments and where appropriate amended them following appearance at the Challenge group. A compliance report was produced for the council's Corporate Management team on 7 January 2014 and a review date set for

September 2014.

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

5.1 The Risk Management pages on TH Net includes a wealth of information and tools concerning managing risk, which have been kept up to date. During 2013/4 the following documents have been added or revised:

- A quick reference guide to Risk Management (a user friendly two page guide)
- A new Risk matrix
- Further guidance on how to use the JCAD Risk system
- Generic Service related risk assessments
- Training materials

However following recent comments from the senior management survey and training (see below) there is a need to provide additional information for managers. This will be part of the Risk Management team plan (see para 9.0 below)

## 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. As a result a significant portion of time is devoted to this area. The following training was delivered or facilitated with others during 2013/4.

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

6.2 In the early part of 2013 the Risk Management team completely revised the Business Risk Management for staff course which is part of the council's corporate training programme. The course was scheduled to run on a monthly basis up until December 2013. In the event 5 courses were delivered between May and October 2013. The delegate feedback from these courses was overwhelming positive. One delegate commented that "... *it was the best course I have so far attended*". The course has been included in the 2014/5 corporate training programme.

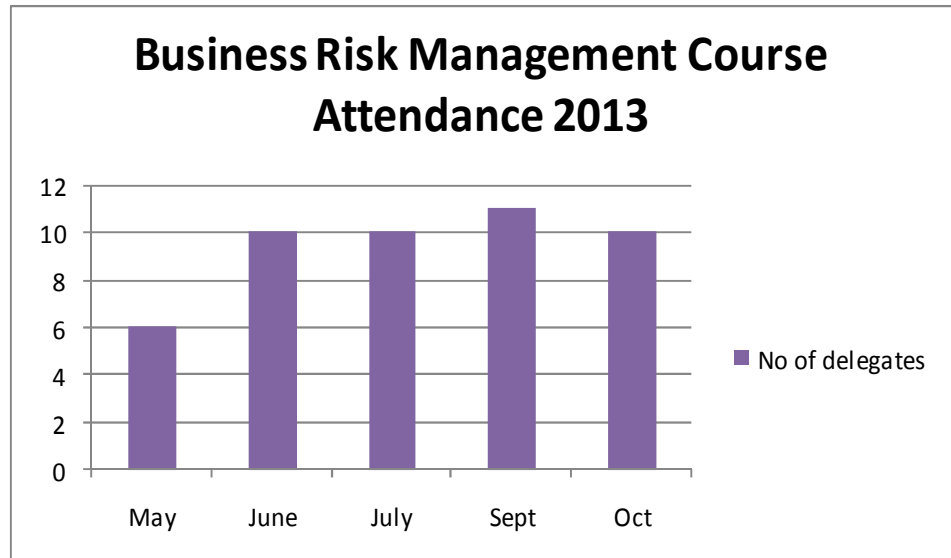


Chart 1 – Business Risk Management course attendance 2013

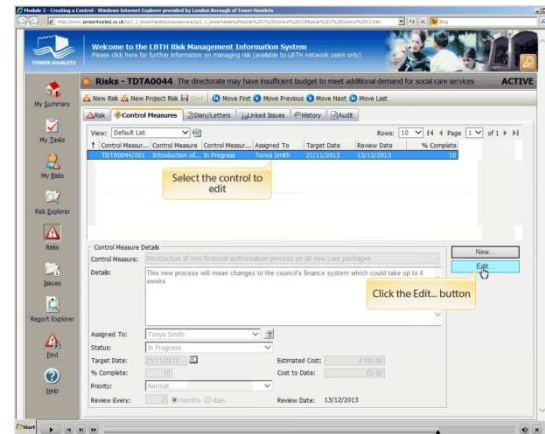
#### **Senior Management Risk Management training**

- 6.3 In mid-2013, the Head of Paid Service instructed the Risk Management team to arrange Risk Management training for all 170 senior managers.
- 6.4 As part of the ongoing work that ZM Risk Consultancy was undertaking with CMT, they were also commissioned to undertake this training assignment. The Risk Management team commissioned an initial series of 13 x 3 hour sessions which took place between January and February 2014. A further four sessions was added to the programme in March. So far over 80% of senior managers have attended. There are two more sessions to be run to mop up the remaining managers who may not have been available for a range of reasons. The training should be completed shortly.
- 6.5 The training sessions were designed to meet the various learning styles using trainer input and questions, quizzes, video as well as a case study which provided opportunity for group working. The learning objectives of the training were for delegates to be able to:
- **Describe** the basic principles of risk management.
  - **Explain** why risk management is important to them and the council.
  - **Outline** their responsibilities for managing risk as a senior manager
  - **Describe** the arrangements used by the council to support good Risk Management
- 6.6 All delegates are requested to complete the council's course evaluation questionnaire and so far 126 forms (92%) have been completed. The overall score given for the course was 4 out of 5 (5 being the highest) and there was generally positive feedback from all delegates.



## E-Learning

- 6.7 The council uses a Risk Management Information System, known as JCAD which is used to record and report on risks. The reports produced by this system are used to provide risk information to DMTs, CMT, MAB and the Audit Committee. An ELearning course has been developed to help train new users of the system as well as provide a refresher for existing users. Pictured right is a screen shot showing part of the new ELearning module.



## Member Risk Management awareness

- 6.8 In November 2013, a Risk Management and Anti fraud awareness session was organised and delivered for members. Sadly there were only two attendees but they found the session useful and subsequently recommended that it should be added to the training sessions for new members. A further session has now been included in the member development programme for July 2014.

## 7.0 Promotion of Risk Management

- 7.1 This section highlights the promotional Risk Management activity which has taken place during 2013/4.

## 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 TH Net as well as targeted invitations being sent to officers. There is usually a mixed audience of senior managers, managers and specialist staff.
- 7.3 Since May 2012 there have been a total of 18 Talks with 689 officer attendances (an average attendance of 38) from across the council. Topics have included for example, the BBC and the Pollard Review report, managing reputation risk, Public Health, cyber security, legal updates and many more. During 2013/4 there have been 8 events with a total attendance of 290 The chart below shows the event titles and attendances at each event.

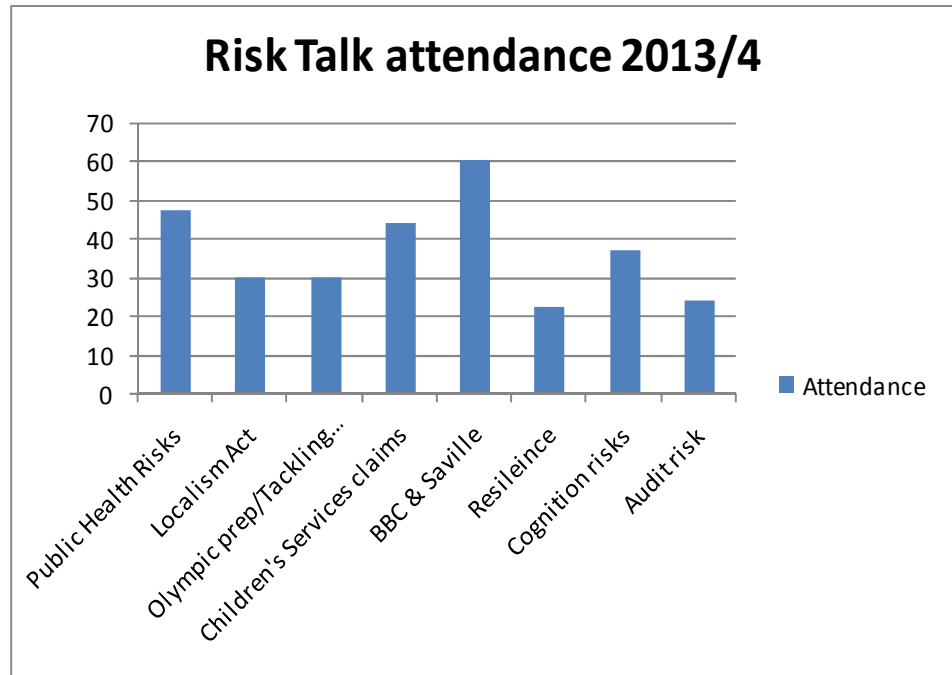


Chart 2. Risk Talk attendances 2013/4

7.4 By far the highest attended Talk (50) was that presented by Paul McCauley (pictured right), Head of the BBC Risk Management who discussed The Pollard Review (the issues surrounding the News Night programme and Jimmy Saville). One of the findings of the Review was that the BBC's programme risk system failed to escalate a risk concerning the News Night programme investigation to senior management.



7.5 One of the aims of the Risk Talks is to share good Risk Management practice. The Talk held in July 2013 provided a show case for the CLC Olympics 2012 team to present on their Olympics project which was aimed at ensuring that the council maintained its services throughout the Games period. The Risk Management work carried out in this project won Alarm's Strategic Risk Award in June 2013 (see para 7.7 below). Pictured left is Mark Edmonds, the council's Olympic2012 Project manager.

- 7.6 In addition to the Talks themselves there is usually an article produced in TH Now (see picture right an extract from TH Now) which helps again raise awareness of topics across the council as well as Risk Management in general. Most speakers usually produce PowerPoint slides and these are published on the TH Net Risk Management pages.



### Alarm Awards 2013

- 7.7 Alarm, is the Public Sector Risk Management Association, who have some 1000 members across the UK. Each year Alarm seeks to acknowledge good Risk Management practice of its members through its awards scheme. The Risk Management team supported two entries in 2013. The first being from CLC for their Olympics 2012 Project (Strategic risk category) and the other for the Corporate Resources Anti-fraud work (Operational risk category). Both entries were nominated and the Olympics project won in the Strategic Risk category whilst the anti-fraud submission was highly commended in the Operational risk category. Pictured left and below, centre, with their trophy and certificate is Ashraf Ali and Mark Edmonds (CLC) and on the right and below, centre, David Williamson and Paul Dudley, representing the anti-fraud team, receiving their certificate.



Strategic Risk Category Risk Winner :(Olympics)



Operational Category Highly Commended: (Fraud)

### Senior Management Risk Management Survey

- 7.8 The Risk Management team conducted an online questionnaire of senior managers for their views about Risk Management within the council. The final results showed that 75 (44%) senior managers completed the online questionnaire. This is a good response rate for a survey of this kind.
- 7.9 The questionnaire was the same one used for the 2012 survey allowing comparison with the 2013 survey. Respondents were asked to state whether they agreed, disagree or "don't know" to a number of statements. In appendix 3, only the percentage who

agreed with each statement is shown. Highlighted in amber are the statements (six) that show a reduction of 10% or more compared with 2012, although this is from an already reasonably high level of “agreed” responses.

7.10 Managers were also able to provide comments on each of the questions and submit suggestions for improvements in the way that formal Risk Management was undertaken in the council. The key points highlighted were:

- There is good support amongst senior manager for Risk Management as a management tool to deliver on business objectives. Although some feel that it can be seen as a “bolt on” and lip service is paid to the process, rather than an aid to effective decision making and a worthwhile activity.
- There needs to be clear guidance on operation of the formal risk management process within directorates and how it links to the service planning process. (Note: this is additional guidance to that already provided in the Team planning guidance note)
- There needs to be more training opportunities for senior managers to learn about Risk Management and how it can help them in meeting their objectives together with simple and user friendly guidance, available on TH Net. The training needs to stress the benefits to the council and senior managers.
- There needs to be guidance on the recording of programme/projects risks within the JCAD risk system. At the moment it is optional and very few programme/project risks are recorded. (Note. There is now training on how to use JCAD on the council’s ELearning platform)

## 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 Alarm/Cipfa Risk Management benchmarking exercise in 2013. The evidence suggests that the council has good processes in place

### **The council’s Annual Governance Statement 2012/3**

8.2 The Annual Governance Statement Report reported to the Audit Committee on 25 June 2013 noted the following comments in regards 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."*

This conclusion is based primarily on Internal audit's review of the work undertaken by the Council.

### **Alarm/Cipfa Benchmarking Club 2013**

- 8.3 The council is a member of the Alarm/Cipfa Risk Management Benchmarking club which comprises over 50 local authorities and other public bodies. The council participated in the 2013 (May/June) Risk Management benchmarking exercise.
- 8.4 The Benchmarking Club uses a National Performance Model which is based on the highly respected tool developed by HM Treasury in 2002, 'Risk Management Assessment Framework'. It breaks down risk management activity into seven strands:
- Leadership and management
  - Strategy and policy
  - People
  - Partnership, shared risks and resources
  - Processes and tools
  - Risk handling and assurance
  - Outcomes and delivery
- 8.5 The Risk Management team completed the self-assessment questionnaire and returned to Cipfa for analysis against the model. Table 3 below shows that the council on all the seven strands has either a Working or Embedded and Integrated classification. Comparing the council's responses with the 2012 results, the overall direction in performance shows an upward trend. This is recognition of the Risk Management work undertaken by the team in the last 12 – 24 months.
- 8.6 The council was also compared with 5 other local authorities (London Boroughs). The comparison indicates that on five of the seven strands the council was slightly below the average although particularly strong on the Policy and Strategy and Process areas. The aim is to improve the council's scores all to Embedded and Integrated and where possible to Driving. It is anticipated that with the measures taken in 2013/4 and those identified in the 2014/15 action plan, there should be some movement in this direction. The next Risk Management benchmarking exercise is due late summer 2014.

<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.

## 9.0 Risk Management Team Plan 2014/5

9.1 The Risk Management team plan 2014/15 is currently being finalised but it 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 revised.

- 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.
- A new Risk Management ELearning course for managers will be produced
- A new Risk Management protocol will be developed to provide guidance on how Risk Management should be applied within directorates.
- Risk Management reports to Audit Committee will be increased from 2 to 4 per year. In addition Risk Management (and anti-fraud awareness training will be offered to members)

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## **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 to 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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## 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

#### Risk Score definitions

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

<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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**Risk Management Survey – Senior Managers**

The final interim Results of the Risk management Survey conducted with senior managers in December and January 2014.

	2012 (Agree)	2013 (Agree)
Risk Management is a valuable exercise	95%	100%
The benefits of Risk Management outweigh the work it requires	81%	81%
Risk Management is a key part of my role	88%	96%
I understand the Council’s approach to Risk Management	95%	92%
I am able to articulate to others the Risk Management approach and how it works in the Council	83%	77%
The Council’s Risk Management Policy and risk guides (on TH Net) are useful and helpful	67%	70%
I understand how Risk Management links with project management	95%	93%
I understand how Risk Management links with key partnerships	62%	68%
I understand how Risk Management links with procurement and contracts	86%	83%
I understand Business Continuity arrangements within the Council	100%	90%

	2012 (Agree)	2013 (Agree)
I understand how Risk Management links with Business Continuity	93%	91%
Risk Management regularly features on the agenda and in conversation at Directorate and Service Management	81%	71%
Risk Management is a formal part of service/team planning on a consistent basis	77%	84%
There is a good level of involvement and ownership of Risk Management from my Director and senior managers	91%	75%
There is a formal risk management process used in programmes/ projects that I am involved with.	97%	78%
Programme and project risks are recorded on the council's risk management information system known as JCAD.	53%	59%
Risk are considered and reviewed regularly at programme/project team meetings	94%	84%
I have visited the Risk Management pages on TH Net in the last 3 months.	44%	31%
I have attended at least one of the regular Risk Talks organised by the Risk Management team	n/a	47%
I am aware of the corporate risk management information system (known as JCAD) for the recording and reporting of risk information?	74%	79%

Note: the survey was issued to 170 senior managers. There were 75 responses , giving a % return of 44%.

# Agenda Item 5.5

<b>Committee:</b> Audit Committee	<b>Date:</b> 30 <sup>th</sup> June 2014	<b>Classification:</b> Unrestricted	<b>Report No:</b>
<b>Report of:</b>  Acting Corporate Director Resources	<b>Title:</b>  Treasury Management Activity Update Report For Period Ending 30 April 2014		
<b>Originating officer(s)</b>  Bola Tobun, Investment & Treasury Manager	<b>Wards Affected:</b>  All		

## **1. SUMMARY**

- 1.1 This report advises the Committee of treasury management activity for the previous financial year up to 30 April 2014 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director - Resources, the investment strategy for the current financial year and the projected investment returns.
- 1.3 The current average return on investment stands at 0.71%, and is on target to achieve budgeted cash return on assets of £1.6m for 2014/15.
- 1.4 The overall monetary limits applied to institutions within our counterparty list was reviewed, as the current investment levels (cash balances) are far above what had been assumed earlier in the year.

## **2. DECISIONS REQUIRED**

- 2.1 Members are recommended to note the contents of the treasury management activity report for period ending 30 April 2014.
- 2.2 To note the gradual planned changes to Lloyds Banking Group in order for us to be timely in reflecting its appropriate monetary and time limits once its non part-nationalised status is established and confirmed.
- 2.3 And to approve the revised monetary limits to our counterparty list; which is to increase each counterparty and money market fund limit by £5m.

## **3. REASONS FOR DECISIONS**

- 3.1 The Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 require that regular reports be submitted to Council/Committee detailing the council's treasury management activities.
- 3.2 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.

#### **4. ALTERNATIVE OPTIONS**

- 4.1 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 (Audit Committee) should receive regular monitoring reports on treasury management activities.
- 4.2 If the Council were to deviate from those requirements, there would need to be some 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.

#### **5. BACKGROUND**

- 5.1 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 (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 5.1 These reports are in addition to the mid-year and annual treasury management activity reports that should be presented to Council midway through the financial year and at year end respectively.
- 5.2 This report details the current credit criteria/risk level adopted by the Service Head, Financial Services, Risk and Accountability, the investment strategy for the current financial year and the projected investment returns.

#### **6. TREASURY MANAGEMENT STRATEGY 2013/14**

- 6.1 The Treasury Management Strategy was approved on 27 February 2013 by Full Council. The Strategy comprehensively outlines how the treasury function is to operate over the financial year 2013-14 and it covered the following:
- Treasury limits in force which will limit the treasury risk and activities of the Council;
  - Prudential and Treasury Indicator;
  - The current treasury position;
  - Prospects for interest rates;
  - The borrowing strategy (including policy on borrowing in advance of need);
  - Debt Rescheduling;
  - The Investment Strategy;
  - Credit Worthiness Policy;
  - Policy on use of external service providers;
  - The Minimum Revenue Provision (MRP) Strategy

#### **7. TREASURY ACTIVITY FOR PERIOD 1 April 2014 to 30 April 2014**

- 7.1 The Treasury Management Strategy for 2014/15 was approved on 26 February 2014 by Full Council and outlines how the treasury function is to operate over this financial year.
- 7.2 This section of the report gives an update on the market and sets out:
- The current credit criteria being operated by the Council.
  - The treasury investment strategy for the current financial year and the progress in implementing this.



- The transactions undertaken in the period and the investment portfolio outstanding as at 30 April 2014.

## **8. MARKET UPDATE**

- 8.1 Central bank activity has dominated sentiment in recent months and will likely remain at the forefront in driving market confidence for some time to come. The US Federal Reserve has now commenced policy tapering, with expectations that its QE3 programme will be extinguished by the end of Q3 this year. What happens after this will have a major bearing on markets in the second half of 2014.
- 8.2 Closer to home, the new Bank of England forward guidance policy does not change the underlying view that rates will remain low for a considerable time yet. 2015 is pencilled in for when the first policy changes will materialise, but there is still a wide range of views as to when in the year this may commence. The views will converge as economic data is released and taking account of Bank communication, including forward guidance.
- 8.3 Through the start of 2014, emerging markets and more recently, geopolitical concerns, have had a major bearing on market sentiment. While the global recovery may continue, the outlook is by no means certain and markets are likely to be hit with further bouts of volatility through the year ahead.
- 8.4 Unlike in the US and UK, consensus expectation on Eurozone central bank policy is still to the downside. Although the currency bloc did manage to produce better than expected growth for the final quarter of 2013, the outlook remains tepid at best. Events in the Ukraine are far from helping matters. Although economic ties are not necessarily significant in many cases, the potential threat to energy supplies, as well as the impact of more widespread sanctions on Russia, may push the ECB to act in the near term.
- 8.5 In Asia the focus will be on two areas. First is how well the Bank of Japan's policy measures stand up to the sales tax increase in April. Economic activity is expected to stall once the hike occurs, but from what level, and for how long? Perhaps of greater importance could be whether China requires further policy support in addition to the recent tax cuts for small firms and speeding up rail projects, to maintain growth above the government's 7.5% growth expectations.
- 8.7 It is likely, therefore, that policy announcements by the major central banks around the world will continue to dominate sentiment through much of 2014.
- 8.8 On the 12 June 2014 at his debut speech at Mansion House in London Mark Carney, the Governor of the Bank of England (BoE) said interest rates could rise earlier than markets were expecting as mounting housing market debt threatens the stability in the financial sector. Whilst the UK economic recovery is raising the prospects of an interest hike, the Governor stressed that higher borrowing costs might stretch over-leveraged homeowners and wreck the economic recovery. Considering that house prices in the UK have risen by almost 10% last year, the comments made by Mark Carney make a good case for BoE intervention. However, raising interest rates is not the only tool at the BoE's disposal as the Bank's new powers will allow it to cap the size of mortgages as a proportion of income or property value.

## **9. CREDIT CRITERIA**

9.1 The following credit criteria for investment counterparties were agreed by the Council in February 2014. The Council will continue to invest within the UK and its Government regardless of the country's sovereign rating.

**Table 1 – Specified Investments**

<b>Institution</b>	<b>Minimum High Credit Criteria</b>	<b>Use</b>	<b>Monetary Limit</b>	<b>Time Limit</b>
Debt Management Office (DMO) Deposit Facility	Not applicable	In-house	£100m*	N/A
Term deposits – Other Local Authorities	Not applicable	In-house	£30m**	1 year
Term deposits – banks and building societies	Short-term F1, Long-term AA-	In-house	£30m	1 year
Term deposits – banks and building societies	Short-term F1, Long-term A+	In-house	£15m to be revised to £20m	1 year
Term deposits – banks and building societies	Short-term F1, Long-term A	In-house	£10m to be revised to £15m	6 months
Institutions that are owned/part owned by the UK Government	Sovereign rating	In-house	Lesser of £70m or 40% of portfolio	1 year
Council's Own Banker	Sovereign rating	In-house	£10m	7 days
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</b>				
Money Market Funds	AAA rated	In-house	£100m to be revised to £160m	£20m

\*Although limit has been set at £100m for the DMO, in reality there is no restriction on placement with the UK Government

\*\* The group limit for local authorities has been set at £100m.

**Table 2 - Non Specified Investments**

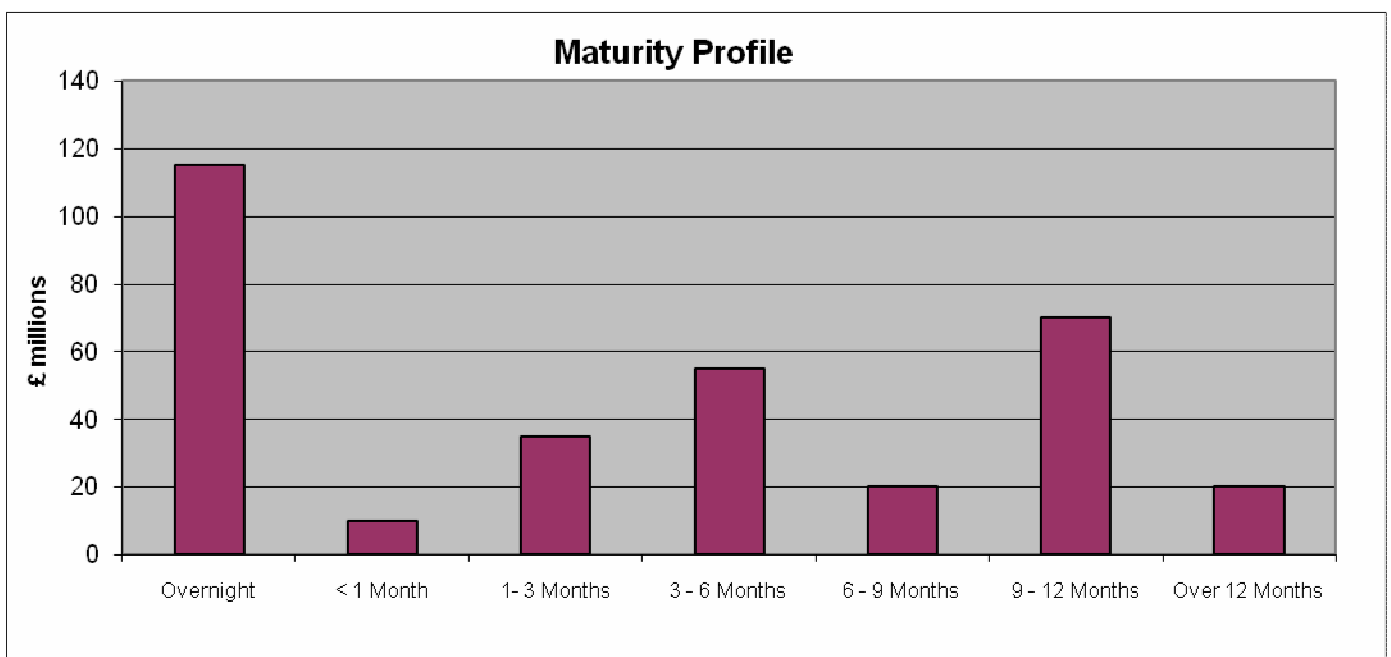
<b>Institution</b>	<b>Minimum High Credit Criteria</b>	<b>Use</b>	<b>Monetary Limit</b>	<b>Time Limit</b>
Banks and building societies	Short-term F1+, Long-term AA- Sovereign rating AAA	In-house	£25m	3 years
Institutions that are owned/part owned by the UK Government	Not applicable	In-house	£25m	3 years
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Short-term F1+, Long-term AA- Sovereign rating AAA	In-house	£35m	3 years
UK Government Gilts	Long Term AAA	In-house	£20m	5 years

## 10. INVESTMENT STRATEGY

- 10.1 Capita provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so Capita’s role is purely advisory.
- 10.2 In addition to providing cash management services, Capita also provides treasury advisory service to the Council.
- 10.3 Capita’s current interest rate projections are that base rate will remain static at 0.50% with limited changes in Bank Base Rate before 2015. Although the outlook for interest rate is below expectation, budgeted return on investment is expected to be achieved this financial year due to higher than expected levels of cash balances.
- 10.4 The Council’s bankers, the Co-operative Bank Plc. are used as depositors of last resort for investment of additional funds received after treasury transactions have been completed and the money markets have closed.
- 10.5 The table below shows the amount of investments outstanding at the end of April 2014, split according to the financial sector.

<b>FINANCIAL SECTOR</b>	<b>£m</b>
Banks in the UK	190.00
Building Societies in the UK	10.00
Banks in the Rest of the World	50.00
Money Market Funds	75.00
<b>TOTAL</b>	<b>325.00</b>

- 10.6 The current investment portfolio, within the constraints of the Councils credit criteria and liquidity requirement, together with the maturity profile of the portfolio is as set out below.



- 10.7 The amount in overnight instruments is money market fund deposits which, though technically classed as overnight investments, are in reality used as longer term investment vehicles. This allows the Council to maintain liquidity whilst still being able to secure reasonable returns on its assets.

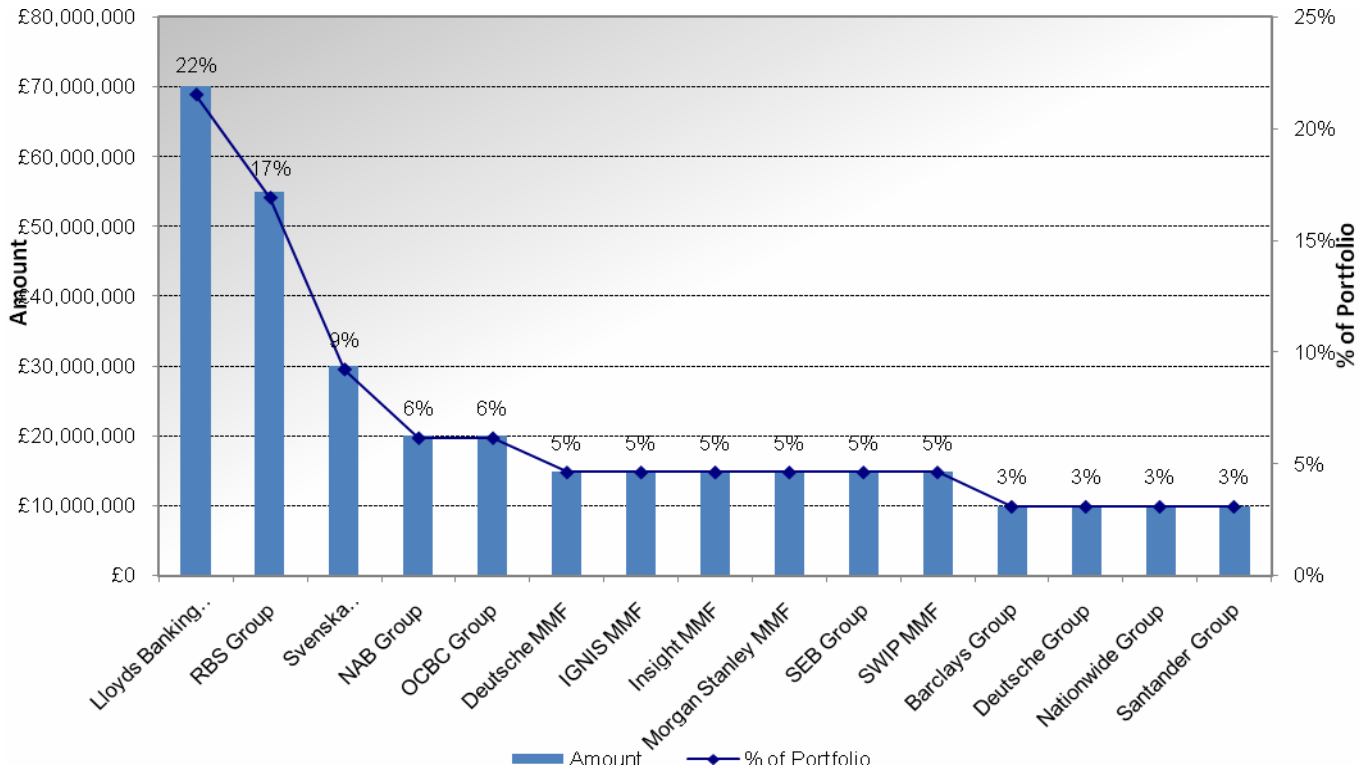
## Investment Portfolio as at 30April 2014

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
<b>Overnight</b>	Santander		<b>Call</b>	10.00	1.10%
	Svenska Handelsbanken		<b>Call</b>	30.00	0.50%
	SWIP		<b>MMF</b>	15.00	0.36%
	IGNIS		<b>MMF</b>	15.00	0.43%
	Insight		<b>MMF</b>	15.00	0.39%
	Deutsche		<b>MMF</b>	15.00	0.36%
	Morgan Stanley		<b>MMF</b>	15.00	0.37%
	<b>SUB TOTAL</b>			<b>115.00</b>	
<b>&lt; 1 Month</b>	OCBC	19/02/2014	19/05/2014	10.00	0.45%
<b>&gt;1 - 3 Months</b>	Lloyds Banking Group	04/06/2013	04/06/2014	5.00	1.05%
	Royal Bank of Scotland	12/06/2013	12/06/2014	5.00	0.65%
	Lloyds Banking Group	04/04/2013	04/07/2014	10.00	1.01%
	Lloyds Banking Group	11/10/2013	11/07/2014	5.00	0.83%
	Lloyds Banking Group	17/04/2014	17/07/2014	10.00	0.45%
<b>&gt;3 - 6 Months</b>	Skandinaviska Enskilda Banken	29/04/2014	29/08/2014	5.00	0.46%
	Barclays	05/03/2014	05/09/2014	10.00	0.53%
	Deutsche Bank	24/03/2014	24/09/2014	5.00	0.55%
	Lloyds Banking Group	07/10/2013	07/10/2014	5.00	0.98%
	Royal Bank of Scotland	09/10/2013	09/10/2014	10.00	0.59%
	Nationwide	11/04/2014	13/10/2014	5.00	0.56%
	Nationwide	16/04/2014	16/10/2014	5.00	0.56%
	Lloyds Banking Group	29/10/2013	29/10/2014	5.00	0.98%
	Deutsche Bank	29/04/2014	29/10/2014	5.00	0.60%
<b>&gt;6 - 9 Months</b>	Lloyds Banking Group	13/11/2013	13/11/2014	5.00	0.98%
	Skandinaviska Enskilda Banken	29/04/2014	14/11/2014	5.00	0.56%
	Lloyds Banking Group	04/12/2013	04/12/2014	5.00	0.98%
	Royal Bank of Scotland	09/07/2013	09/01/2015	5.00	0.95%
<b>&gt;9 -12Months</b>	Royal Bank of Scotland	27/01/2012	27/01/2015	5.00	3.35%
	Lloyds Banking Group	04/02/2014	04/02/2015	5.00	0.95%
	Lloyds Banking Group	13/02/2014	13/02/2015	5.00	0.95%
	Lloyds Banking Group	05/03/2014	05/03/2015	10.00	0.95%
	National Australia Bank	18/03/2014	18/03/2015	10.00	0.57%
	National Australia Bank	03/04/2014	02/04/2015	10.00	0.60%
	Lloyds Banking Group	11/04/2014	10/04/2015	5.00	0.95%
	Lloyds Banking Group	15/04/2014	15/04/2015	5.00	0.95%
	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%
	Royal Bank of Scotland	16/04/2014	16/04/2015	5.00	0.67%
	Skandinaviska Enskilda Banken	29/04/2014	29/04/2015	5.00	0.71%
<b>&gt; 12 Months</b>	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	<b>SUB TOTAL</b>			<b>210.00</b>	
	<b>TOTAL</b>			<b>325.00</b>	

\* This is a structured deal, the terms of which could change during its tenor.

10.8 The Council’s exposure to any one counterparty/Group is represented by the chart below including exposure as a percentage of total assets invested as at 30 April 2014. The chart below shows the deposits outstanding with authorised counterparties as at 30 April 2014, of which 39% were with part-nationalised banks (Lloyds and RBS Groups).

**COUNTERPARTY EXPOSURE**



10.9 At the close of April, the Office for National Statistics (ONS) released a classification document with regards Lloyds Banking Group and its subsidiaries. Within this, they have reclassified the entities from their Public Sector Corporations sector to Private Sector Corporations. In light of this, we are reviewing our time and money limits with the group structure as without the part-nationalised “status” the bank would have a suggested duration of 100 days, in accordance with the Capita Asset Services methodology, which is in line with a number of its peers. The suggested durations cut back are as follows; to 9 months in July 2014, 6 months in October and then back to its base duration and monetary limits criteria status once they are considered a non part-nationalised operation.

10.10 In light of the above and the trend of our current cash balances, we are proposing a revision of the monetary limits of all institutions currently on our counterparty list and also our money market funds (MMF) as our current cash balance is £100m more than what we envisaged it would be earlier this year. This balance has added additional strain in placing deposits on a daily basis due to the stringent nature of our credit criteria. We have been using the Debt Management Office (DMO) with investment rate of return of 0.25% and also threaten to reduce rate of return on investment to 0.15% at a point.

10.11 We are therefore proposing not to lower our sovereign rating from AAA in order to accommodate more institutions on the counterparty list but we rather increase the monetary level of each institution currently on our list and also each one of our MMF by £5m.

10.12 The current massive cash balance is due to front loaded inflow of funds such as Revenue Support Grant (RSG) and Business Rate Retention Scheme (BRRS), but in the next six months we would be making massive payments to Greater London Authority (GLA) and BRRS, hence the cash balance will average out to around £200m for year 2014/15.

## INVESTMENT RETURNS

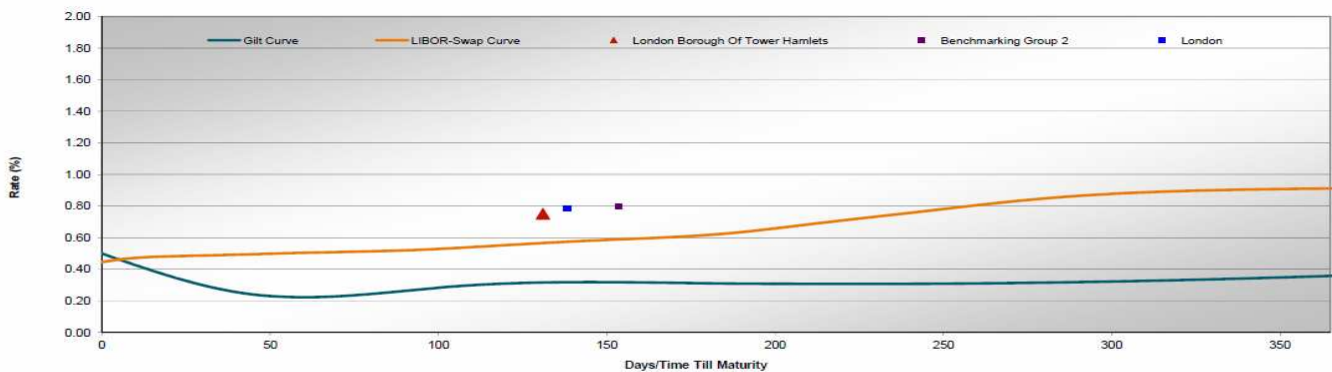
- 11.1 Investment returns since inception of the cash management arrangement with Capita has been consistently above the portfolio benchmark and the 7 day London Interbank Bid Rate (LIBID).
- 11.2 Low rates of return on the Money Market Funds (MMFs) and longer term investments (which have now matured and are being replaced with lower rate investments), have resulted in a decline in the rate of return of the fund. Our latest counterparty credit rating list is attached at Appendix 2.
- 11.3 Notwithstanding these constraints, the portfolio has outperformed the 7 day LIBID, which currently stands at an average of 0.34%, by 0.36%.
- 11.4 The budgeted investment return for 2013/14 was £2.545m, but £2.394m was achieved. We were £151k below target as the invested rates were slightly lower than the anticipated rates. The table below details performance of investments.

Period	LBTH Performance	Benchmark(7 Day LIBID+0.25%)	(Under)/Out Performance
Full Year 2013/14	0.83%	0.60%	0.23%
April 2014/15	0.71%	0.59%	0.12%

## 12. INVESTMENT BENCHMARKING CLUB

- 12.1 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 31 March 2014. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 201 local authorities. Tower Hamlets lies close to the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.

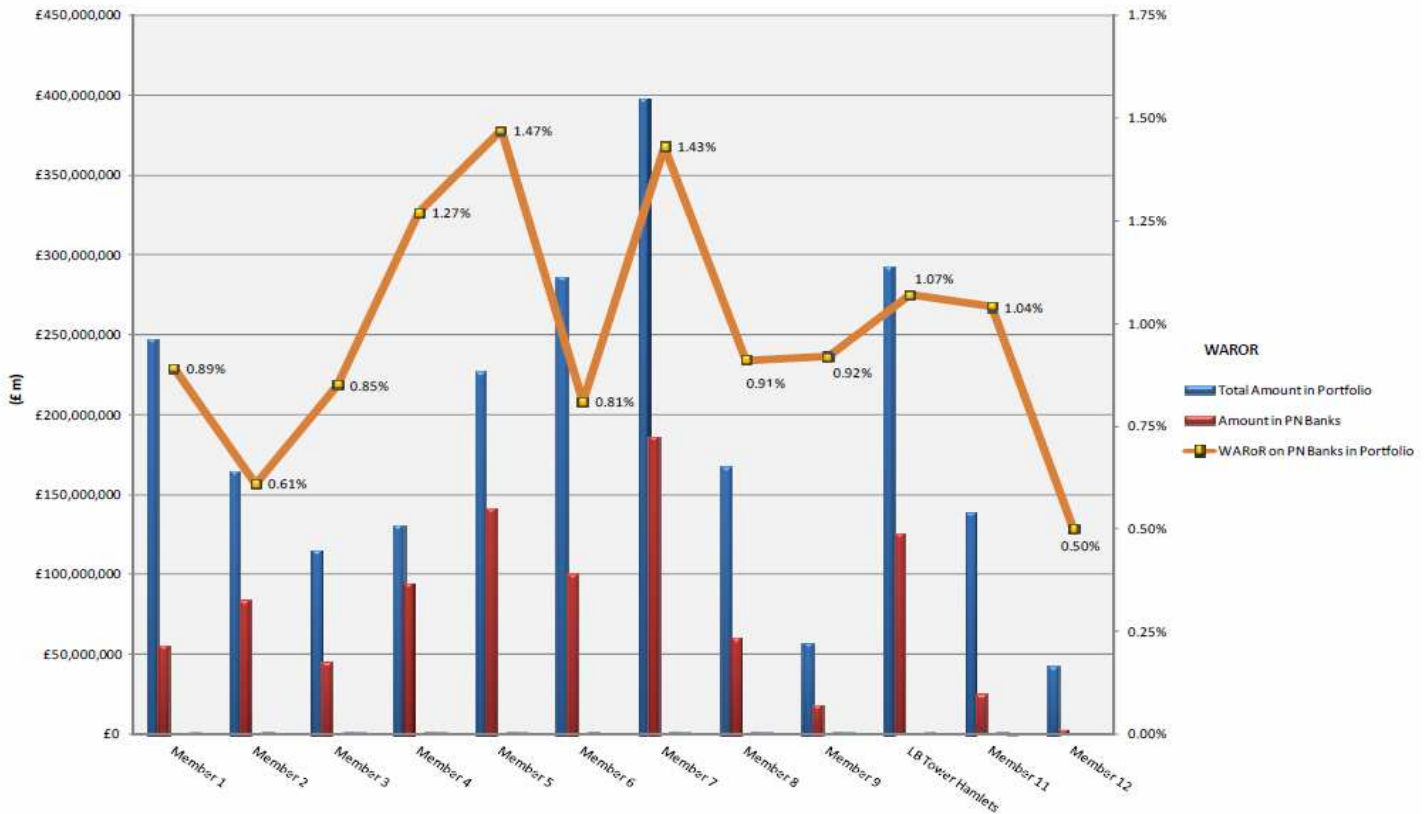
Returns Comparable Against the Risk-Free Rate and LIBOR Curve



	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference Gilt	Difference LIBOR-Swap	Model Bands	Performance
London Borough Of Tower Hamlets	0.75%	131	229	3.2	0.32%	0.57%	0.43%	0.19%	0.66% - 0.81%	Inline
Benchmarking Group 2	0.80%	153	275	3.0	0.32%	0.59%	0.48%	0.21%	0.68% - 0.84%	Inline
London	0.79%	138	260	2.9	0.32%	0.57%	0.47%	0.21%	0.67% - 0.83%	Inline

- 12.2 The weighted average rate of return (WARoR) for Tower Hamlets is 0.75% compared to 0.80% for the group. The return on LBTH investment is commensurate with the Council's risk appetite as set out in the Investment Strategy.
- 12.4 A further chart is provided that compares exposure to Part-Nationalised Banks(PNB) between club members as the Council currently has a significant amount of investment with PNBs. The chart shows that the Council's allocation to and returns from investment with PNBs is in line with other London boroughs as at 31 March 2014.

**Members exposure to Part-Nationalised Banks ( March 2014)**



**13. DEBT PORTFOLIO**

- 13.1 There has been no new borrowing this financial year to date. Current debt portfolio stands at £89.6m.

**14. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 14.1. The comments of the Chief Financial Officer have been incorporated into the report.

**15. LEGAL COMMENTS**

- 15.1 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. 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.



- 15.2 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.
- 15.3 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.

## **16. ONE TOWER HAMLETS CONSIDERATIONS**

- 16.1 Interest on the Council's cash flow has historically contributed significantly towards the budget.

## **17. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 17.1 There are no Sustainable Actions for A Greener Environment implications.

## **18. RISK MANAGEMENT IMPLICATIONS**

- 18.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

## **19. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 19.1 There are no crime and disorder reduction implications arising from this report.

## **20. EFFICIENCY STATEMENT**

- 20.1 Monitoring and reporting of treasury management activities ensures 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.

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### **LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

***Brief description of "background papers"***

*April 2014 Capita -LBTH Investment Portfolio Analysis Report  
Capita - Benchmarking Report March 2014*

***Name and telephone number of holder  
And address where open to inspection***

*Bola Tobun Ext. 7635  
Mulberry Place, 3rd Floor.*

## Definition of Credit Ratings

## Support Ratings

Rating	
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

## Short-term Ratings

Rating	
F1	<b>Highest short-term credit quality.</b> Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	<b>Good short-term credit quality.</b> A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	<b>Fair short-term credit quality.</b> The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

## Long-term Rating Scales

Rating	Current Definition
<b>AAA</b>	<b>Highest credit quality.</b> 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
<b>AA</b>	<b>Very high credit quality.</b> 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
<b>A</b>	<b>High credit quality.</b> 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
<b>BBB</b>	<b>Good credit quality.</b> 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category

## Individual Ratings

Rating	
<b>A</b>	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
<b>B</b>	A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects
<b>C</b>	An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
<b>D</b>	A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
<b>E</b>	A bank with very serious problems, which either requires or is likely to require external support.

APPENDIX 2

London Borough of Tower Hamlets Counterparty List

Country/Financial Institution	Fitch Rating				Moody's Ratings			S&P Ratings		Duration	Monetary Limit (£m)
	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term		
<b>Australia</b>	AAA	-	-	-	Aaa	-	-	AAA	-		
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	12 months	30
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	12 months	30
National Australia Bank Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	12 months	30
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	12 months	30
<b>Canada</b>	AAA	-	-	-	Aaa	-	-	AAA	-		
Bank of Montreal	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1	12 months	30
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1	12 months	30
Canadian Imperial Bank of Commerce	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1	12 months	30
National Bank of Canada	A+	F1	a+	1	Aa3	P-1	C	A	A-1	12 months	20
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+	12 months	30
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	12 months	30
<b>Denmark</b>	AAA	-	-	-	Aaa	-	-	AAA	-		
Danske Bank	A	F1	a	1	Baa1	P-2	C-	A	A-1	6 months	15
<b>Finland</b>	AAA	-	-	-	Aaa	-	-	AAA	-		
Nordea Bank Finland plc ~	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+	12 months	30
<b>Germany</b>	AAA	-	-	-	Aaa	-	-	AAA	-		
Deutsche Bank AG	A+	F1+	a	1	A2	P-1	C-	A	A-1	12 months	20
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	A+	F1+	-	1	A1	P-1	C-	AA-	A-1+	12 months	20
Landesbank Baden Wuerttemberg	A+	F1+	bbb	1	A2	P-1	D+	-	-	12 months	20
Landesbank Hessen-Thueringen Girozentrale (Helaba)	A+	F1+	-	1	A2	P-1	D+	A	A-1	12 months	20
Landwirtschaftliche Rentenbank	AAA	F1+	-	1	Aaa	P-1	-	AAA	A-1+	12 months	30
<b>Luxembourg</b>	AAA	-	-	-	Aaa	-	-	AAA	-		
Clearstream Banking	AA	F1+	aa	1	-	-	-	AA	A-1+	12 months	30
<b>Netherlands</b>	AAA	-	-	-	Aaa	-	-	AA+	-		
Bank Nederlandse Gemeenten	AAA	F1+	-	1	Aaa	P-1	B-	AA+	A-1+	12 months	30
Cooperatieve Centrale Raiffeisen Boerenleenbank BA	AA-	F1+	-	1	Aa2	P-1	B-	AA-	A-1+	12 months	20
ING Bank NV	A+	F1+	a	1	A2	P-1	C-	A	A-1	12 months	20
<b>Singapore</b>	AAA	-	-	-	Aaa	-	-	AAA	-		
DBS Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	12 months	30
Oversea Chinese Banking Corporation Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	12 months	30
United Overseas Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	12 months	30
<b>Sweden</b>	AAA	-	-	-	Aaa	-	-	AAA	-		
Nordea Bank AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+	12 months	30
Skandinaviska Enskilda Banken AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1	12 months	20
Swedbank AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1	12 months	20
Svenska Handelsbanken AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+	12 months	30
<b>Switzerland</b>	AAA	-	-	-	Aaa	-	-	AAA	-		
Credit Suisse AG	A	F1	a	1	A1	P-1	C-	A	A-1	6 months	15
UBS AG	A	F1	a	1	A2	P-1	C-	A	A-1	6 months	15
<b>U.K</b>	AA+	-	-	-	Aa1	-	-	AAA	-		
Bank of New York Mellon (International) Ltd	AA-	F1+	-	1	-	-	-	-	-	12 months	30
Barclays Bank plc	A	F1	a	1	A2	P-1	C-	A	A-1	6 months	15
Co-operative Bank Plc	B	B	b	5	Caa2	NP	E	-	-	7 days	10
Credit Suisse International ~	A	F1	-	1	A1	P-1	-	A	A-1	6 months	15
Goldman Sachs International Bank ~	A	F1	-	-	-	-	-	A	A-1	6 months	15
HSBC Bank plc	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+	12 months	30
Lloyds Banking Group plc	A	F1	a-	1	A2	-	-	A-	A-2	12 months	£70m or 40%*
Bank of Scotland Plc	A	F1	a-	1	A1	P-1	C-	A	A-1		
Lloyds Bank Plc	A	F1	a-	1	A1	P-1	C-	A	A-1		
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa2	P-2	-	BBB+	A-2	12 months	£70m or 40%*
National Westminster Bank Plc	A	F1	-	1	Baa1	P-2	D+	A-	A-2		
The Royal Bank of Scotland Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2		
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1	6 months	15
Standard Chartered Bank	AA-	F1+	aa-	1	A1	P-1	B-	AA-	A-1+	12 months	30
UBS Ltd ~	A	F1	-	1	A2	P-1	-	A	A-1	6 months	15
Money Markets Funds (MMF)	AAA	-	-	-	Aaa	-	-	AAA	-	Liquid	20***
Local Authorities Deposit										12 months	30*
Debt Management Office										No Limit	No Limit
UK Gilts	AA+	-	-	-	Aa1	-	-	AAA	-	60 months	20

\* £100m in total for overall deposits with Local Authorities

\*\* 40% of Investment Portfolio

\*\*\* for each MMF