

# AUDIT COMMITTEE

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Tuesday, 8 December 2015 at 7.00 p.m.

MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent,  
London, E14 2BG

This meeting is open to the public to attend.

**Members:**

Chair: Councillor Candida Ronald

Vice-Chair: Councillor Sabina Akhtar

Councillor Clare Harrisson, Councillor Amina Ali, Councillor Shahed Ali, Councillor Mohammed Mufti Miah and Councillor Andrew Wood

**Deputies:**

Councillor Dave Chesterton, Councillor Joshua Peck, Councillor Gulam Kibria Choudhury and Councillor Muhammad Ansar Mustaqim

[The quorum for this body is 3 Members]

**Contact for further enquiries:**

Antonella Burgio, Democratic Services

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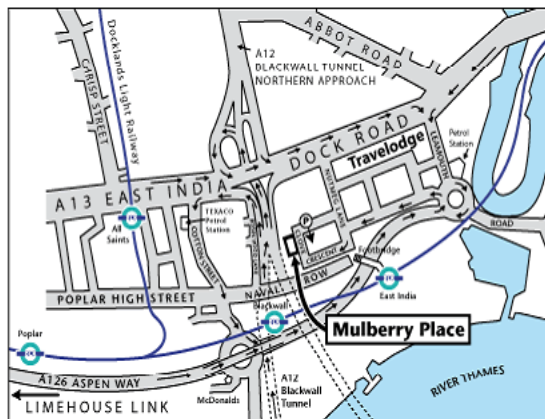
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## **APOLOGIES FOR ABSENCE**

### **1. 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.

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

**5 - 24**

To confirm the minutes of the Audit Committees held on 21 July 2015 and 23 September 2015.

### **3. PRESENTATIONS**

#### **3.1 Household Composition**

To receive a presentation from Graeme Thompson, Programme Manager Counter Fraud and Error, Cabinet Office.

#### **3.2 Protecting the London Purse**

A benchmarking presentation from Alan Bryce, formerly Head of Counter Fraud at the Audit Commission.

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

#### **4.1 Quarterly Assurance Report**

**25 - 54**

To consider the work of Internal Audit for the period September 2015 to November 2015.

#### **4.2 Revised Audit Plan**

**55 - 112**

To provide an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan.

#### **4.3 Annual Schools Report**

**113 - 126**

To consider the work of Internal Audit in relation to the audit of schools for the financial year 2014/15.

**4 .4 Quarter 2 Corporate Risk Register Update 2015/16 127 - 154**

To provide the Audit Committee with an update of the corporate risks as at the end of November 2015 and a summary of changes made to the register during the second quarter 2015/16.

**4 .5 Progress on the National Fraud Initiative (NFI) Exercise, 2014 155 - 166**

To provide details of the background and changes to the National Fraud Initiative, and the National Fraud Initiative (NFI) 2014 exercise.

**4 .6 2014/15 Local Government Pension Fund Annual Report 167 - 188**

To note the Annual Pension Fund Report Pension Fund Statement of Accounts for 2014/15 and the Audit opinion of the Council's external auditors KPMG.

**4 .7 Treasury Management Activities Report for Quarter Ending 31 October 2015 189 - 202**

To note the Council's Treasury activities 2015/16 in the quarter to 31 October 2015.

**4 .8 Mid - Year Review For Treasury Management and Investment Strategy 2015/16 203 - 242**

To review progress on the Treasury Management and Investment Strategy that was approved by Full Council on 25 February 2015 and how the Treasury Management team has managed the Council's monies and treasury related risks and investments.

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

**Next Meeting of the Committee:**

Tuesday, 22 March 2016 at 7.00 p.m. to be held in the MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

# Agenda Item 1

## **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:-

Melanie Clay, Director of Law Probity and Governance 2017 364 4800

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 7.05 P.M. ON TUESDAY, 21 JULY 2015**

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

**Members Present:**

Councillor Candida Ronald (Chair)  
Councillor Sabina Akhtar  
Councillor Ayas Miah  
Councillor Andrew Wood

**Others Present:**

Andrew Sayers	– (Engagement Lead Auditor, KPMG)
Antony Smith	– (Engagement Manager, KPMG)
Daniel Hellary	– (Service Manager, Mazars)
Nick Spenceley	– (Head of Repairs Tower Hamlets Homes)

**Officers Present:**

Simon Baxter	– (Acting Service Head, Public Realm, Communities Localities & Culture)
Kate Bingham	– (Service Head, Children's and Adults Resources)
Chris Holme	– (Service Head, Resources & Economic Development)
Minesh Jani	– (Head of Audit and Risk Management, Resources)
Dorne Kanareck	– (Interim Service Head, Commissioning and Health)
Bharat Mehta	– (Audit Manager)
Kevin Miles	– (Chief Accountant, Resources)
Tony Qayum	– (Anti-Fraud Manager, Risk Management, Resources)
Antonella Burgio	– (Democratic Services)

**Apologies:**

Councillor Rachel Blake  
Councillor Mohammed Mufti Miah

**1. APPOINTMENT OF VICE-CHAIR**

A self-nomination for the position of Vice-Chair of Audit Committee was received from Councillor Sabina Akhtar and seconded by Councillor Ronald. There being no other nominations it was

### **RESOLVED**

That Councillor Sabina Akhtar be appointed Vice-Chair of Audit Committee for the duration of the municipal year.

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

Cllr Andrew Wood declared an interest regarding item 6.7 in that his father is on the electoral register at Tower Hamlets and receives a Council tax letter.

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

The minutes of the meeting held on 17 March 2015 were approved as a correct record of proceedings subject to correction at minute 3.2 in that all references to 'Section 101 Audit' be amended to 'Section 106 Audit'

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

The clerk introduced the report informing Members that this annual report was presented to enable the Committee to note its arrangements and, if desired, agree an alternative meeting time for the duration of the municipal year.

### **RESOLVED**

1. That Audit Committee's Terms of Reference, Quorum, Membership, and Dates of future meetings as set out in Appendices 1, 2 and 3 to the report be noted.
2. That scheduled meetings will start at 7.00 pm for the duration of the municipal year.

## **5. UNRESTRICTED EXTERNAL AUDIT (KPMG) REPORTS**

### **5.1 External Audit Plan 2014/15**

Andrew Sayers and Antony Smith of KPMG introduced the report which detailed how KPMG intends to deliver their financial statements audit work for the Council and its pension fund in 2014/15 and the approach to be taken in regard to value for money work in the same period. The approach to audit would be the same as in the previous year and details were given in sections two to six of the report.

The key risks identified were the High Court judgement, accounting in the local authority schools following the issue of new guidance, payments of grants and connected decisions and S106 agreements.

Key risks identified in regard to the Pension Fund were: reform of the LGPS in which will have a delayed effect on the calculation of pension benefits.

VFM risks identified were: savings that would be required relating to the medium term financial plan and if an appropriate mitigation plan exists, Best Value inspection outcomes and schools governance.

The materiality figures used were:

- for the authority £15 million
- for the pension fund £20 million

Responding to Members' questions, the following information was provided:

The annual accounts would be signed off in August 2015 unless matters were to arise which would require other clearance.

No material changes to the figures report were presently anticipated.

The work that was incorporated in the additional fee related to Audit NNDR however it was no longer necessary to undertake this work as a separate element.

## **RESOLVED**

1. That the external audit plan and external audit opinion be noted.
2. That Section 2 of the report including KPMG headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion be noted
3. That Section 3 of the report describing the approach we take for the audit of the financial statements be noted.
4. That Section 4 of the report providing further detail on the financial statements audit risks be noted.
5. That Section 5 of the report providing further detail on the audit risks for the pension fund be noted.
6. That Section 6 of the report explaining KPMG's approach to VFM arrangements work be noted.
7. That Section 7 of the report providing information on the audit team, our proposed deliverables, the timescales and fees for KPMG work be noted.

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

## 6.1 Annual Financial Report 2014/15

The Acting corporate Director of Resources presented the report informing the Committee that:

- the draft annual accounts were published on 30 June 2015.
- The value for money assessment indicated that the Council was in good financial health and this position would serve to mediate the challenges that the organisation would face in the medium-term future.
- £6.5 million had been added to reserves as future contingency.
- During the financial year 2014-15 there had been a high level of right to buy activity.
- The accounts had been published for inspection. They would be audited and returned to the Committee in September for approval.

Responding to Members' questions, the following information was provided:

Concerning whether any work has been undertaken on the introduction of right to buy in regard to housing associations and other types of public sector housing, the Committee was informed that details had yet to be published. The Housing Revenue Accounts would be affected by the proposed reductions in social housing rents arising from the recent government budget. It was anticipated that the introduction of the scheme would have a large impact on the housing revenue account.

Concerning whether discounts being offered by registered social landlords and public sector landlords would be affected, the Committee was informed that these would remain the same. However registered providers were private entities and therefore it was not yet known how these will be implemented. Concerning whether there would be any impacts on Tower Hamlets Homes, the Committee was informed that possible effects could not be determined before properties become available for sale. Once available for sale, the properties will need to be valued and the financial implications would become apparent.

### RESOLVED

That the Annual Financial Report for the financial year ending 31<sup>st</sup> March 2015 be noted, comprising the Explanatory Foreword and the draft Statement of Accounts which is subject to audit.

## 6.2 Treasury Management Quarter 3 Report - Year to 31 December 2014

Chief Accountant, Kevin Miles introduced the report which provided a summary of treasury management activity relating to the Council's investments and an indication of anticipated interest rates provided by the Council's Treasury Advisers. He highlighted that in the present economic climate, new investment opportunities could arise should interest rates be increased by the Bank of England.

**RESOLVED**

That the report be noted

**6.3 Treasury Management Outturn Report - (including Quarter 4 Updates)**

Chris Holme, Acting Corporate Director, Resources introduced the report and highlighted that during the financial year 2013/14 the Council had been able to obtain a better interest rate and a lower borrowing rate than expected.

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

Concerning the Council's exposure to LOBOS Members were informed that the Council had three loans of this kind. These loans were at lower interest rates than the prevailing PWLB rates at the time the loans were taken. To the loans included six monthly review clauses where the Council could repay the loans without penalty if a rate change was requested by the lending bank.

**RESOLVED**

That the report be noted

**6.4 Head of Audit Annual Report for 2014/15**

The Head of Audit and Risk Management introduced the report which summarised the audit work undertaken in the period 2014-15. Of the 101 audits undertaken in period, 94 had been finalised and the audit assurance returned showed the indicative confidence on the service achieving its target outcomes. The report also:

- set out to the National Audit Charter.
- contained two elements; a summary of the annual audit including the audit opinion and quarterly audits yet to be reported

Responding to Members' questions on the annual audit summary, the Head of Audit and Risk Management advised that Audit Committee was able to influence the audit plan as it was charged with oversight of internal control and risk management of audits to monitor the quality and compliance of the council's internal procedures

*Quarterly Audits**Contract Cleaning*

The Head of Audit and Risk Management introduced to the item informing the Committee that the audit related to contract cleaning supplied to schools, and to youth and children's centres. A limited assurance had been tricked turned because of the following weaknesses: failing to record SLAs and contractual agreements, arrangements for payments to contracted staff, failing to bill some prior services received and failure to keep some records up to date.

The Service Head Resources ESCW attended to respond to questions from the committee and informed members that:

- clients of the service were internal
- there had been some lack of focus on internal processes
- the non-compliances identified had been remedied prior to the end of the audit
- good practices administered by Catering Services had been successfully replicated and adopted by the Cleaning Services teams.

#### *Direct Payments*

The Head of Audit and Risk Management introduced the audit which concerned payments to support residents in need of additional care. These payments were paid directly by the Council to qualifying. A limited assurance was returned as the following areas required improvement; some user agreements remained unsigned, systems not updated as regularly as necessary and failure to recover money unspent.

Dorne Kanarek Interim Service Head, Commissioning and Health informed the Committee that:

- since the audit all non-compliances have been remedied
- recipients of direct payments were not all able to manage their money and in these cases support had been given
- further, where it was found that recipients had not been able to engage with this method of support, direct payments have subsequently been removed.

#### *Visit Procedures*

The Head of Audit and Risk Management reported that a limited assurance had been returned as the audit had identified that failed visits had not been recorded in a consistent manner, and protocols had not been monitored consistently. These had had implications on the accuracy of safeguarding procedures.

Dorne Kanarek Interim Service Head, Commissioning and Health informed the Committee that:

- all non-compliances had been addressed
- the robust visiting policy used by Out of Hours Team had been adopted throughout
- secondary checks have been incorporated into the procedure
- to safeguard the quality of the service in future, processes would be continually checked and sugar failures arise, procedures would be reviewed.
- a limited assurance automatically triggered a follow-on audit and this further insured that matters highlighted during audit would be addressed.

#### *Aids and Adaptions*

The Head of Audit and Risk Management reported that a limited assurance had been returned, for this follow-on audit as it was identified that some

recommendations arising from the initial audit of this service area had yet to be implemented.

Nick Spencely Head of Repairs Tower Hamlets Homes informed Members that since the follow-up audit:

- all aids and adaptations works had received a post-works inspection
- a performance framework was now in place and this was being fully documented.
- the service was collaborating with the Council's Legal Services section to ensure that all contracts will be implemented fully

All of these measures were now in place and Mr Spencely was confident that a substantial assurance would shortly be achieved.

#### *Rechargeable Works*

The Head of Audit and Risk Management reported that a limited assurance had been assigned because of issues around the recording of petty cash 'unders and overs' and calculation of administrative fees.

Simon Baxter, Acting Service Head, Public Realm, informed Members that eight of the nine recommendations arising from the audit had been implemented. Additionally the remaining recommendation, a section to separate agreement, would be in place before 9 September.

#### *Annual Schools Report*

The Head of Audit and Risk Management informed the Committee that a full report would be brought to a future meeting.

#### *Audit Opinion*

The Head of Audit and Risk Management reported that in 2014-15 the areas that had delivered limited assurances were; mainstream grants, Telecare, Panel Care Decisions, mobile phones, staff declarations of interests, parking, youth services, information governance and Tower Hamlets Homes. Each of these areas has received a six monthly follow-up audit to monitor the implementation of recommendations arising from their respective audits.

### **RESOLVED**

That the following be noted:

1. the content of the annual audit report,
2. the summary of audits undertaken which have not been previously reported and
3. the Head of Audit opinion.

### **6.5 Annual Governance Statement 2014/15**

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

- the Council was required to review its governance arrangements at the least once each year

- the annual government statement set out the context in which the Council was required to operate, its framework of control and measures in place to manage its affairs.
- review the effectiveness of its controls and what measures are in place to remedy any gaps

The Committee asked that Objective Two in the report to be recirculated

**Action by:** Antonella Burgio, Democratic services

Concerning an enquiry around meetings of the Constitutional Working Party, Members were informed that a written answer would be provided

**Action by:** Minesh Jani, Head of Audit and Risk Management

Concerning recent issues relating to grants, Members were informed that a referral was under investigation by the Metropolitan police and the Head of Audit and Risk Management had met with Police officers a number of times. The Council would give them full support. To ensure that lessons would be learned strong compliance arrangements are being put in place

#### **RESOLVED**

1. That The Audit Committee note the process and findings set out in paragraphs 4.1 – 7.3; and
2. That the Draft Annual Governance Statement for the financial year 2014/15 at Appendix 3 be agreed.

#### **6.6 Annual Anti-Fraud Report 2014-15**

The Corporate Antifraud Manager presented the report and highlighted the following matters:

- Preventative antifraud work undertaken by the Council has an impact on homelessness by preventing fraudulent occupation of dwelling.
- Figures produced by the Benefits Team were lower than desired because of resourcing issues and the removal of benefits investigations from the Council to DWP.
- the Council was investigating how the antifraud service could become self-funding.
- further significant areas of antifraud work which could be investigated were; Council tax frauds relating to single person discounts and student status.

#### **RESOLVED**

That the report be noted.



**6.7 National Fraud Initiative (NFI) 2012 - Outcome**

Cllr Andrew Wood declared an interest regarding item 6.7 in that his father is on the electoral register at Tower Hamlets and receives a Council tax letter.

The Corporate Antifraud Manager introduced the report informing Members that:

- the Council had a statutory duty to support the National Fraud Initiative.
- in 2014, the Cabinet Office took on NFI responsibility.
- the approach taken to NFI is to investigate sub regional issues which are of high value.
- the program is ongoing and aims to reveal patterns and trends in fraud.

**RESOLVED**

That the report noted

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

The Head of Audit and Risk Management wished to offer his thanks to Chris Holme, Acting Corporate Director Resources, for the extensive support given to the work of the auditors and Audit Committee during his tenure.

The Chair and Committee Members also added their thanks for the work and responsibilities discharged by Chris on behalf of the Council during a challenging period.

The meeting ended at 8.33 p.m.

Chair, Councillor Candida Ronald  
Audit Committee

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**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.00 P.M. ON WEDNESDAY, 23 SEPTEMBER 2015**

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

**Members Present:**

Councillor Candida Ronald (Chair)

Councillor Sabina Akhtar

Councillor Clare Harrisson

Councillor Amina Ali

**Others Present:**

Andrew Sayers

– (Engagement Lead Auditor, KPMG)

Antony Smith

– (Engagement Manager, KPMG)

**Officers Present:**

Zena Cooke

– (Corporate Director, Resources)

Shirley Hamilton

– (Interim Head of ICT)

Daniel Hellary

– (Service Manager, Mazars)

Minesh Jani

– (Head of Audit and Risk Management, Resources)

Bharat Mehta

– (Audit Manager)

Kevin Miles

– (Chief Accountant, Resources)

Tony Qayum

– (Anti-Fraud Manager, Risk Management, Resources)

Ann Sutcliffe

– (Service Head Corporate Property and Capital Delivery, Development and Renewal)

Antonella Burgio

– (Democratic Services)

**Apologies:**

Councillor Andrew Wood

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of disclosable pecuniary interest.

**2. MINUTES OF THE PREVIOUS MEETING(S)**

The minutes of the meeting held on 21 July 2015 were deferred.

### 3. KPMG ITEMS FOR CONSIDERATION

#### 3.1 Report to Those Charged with Governance - ISA260 2013/14

At the Chair's invitation, Andrew Sayers, Engagement Partner, KPMG, presented the report which related to the annual external auditor's report for the period 2013/14. The Committee was informed:

- That, as external auditors, KPMG were responsible for the audit of:
  - Financial arrangements
  - Ensuring that the Council secured value for money(VFM)
  - The exercise of any other audit powers as considered necessary and appropriate.
- That the completion of the annual audit had been deferred pending the conclusion of the investigation by PWC undertaken under the instructions of the Secretary of State. Following the final report being issued, we were able to undertake further enquiries arising from the report's findings and additional information received from other parties. Once these were completed we were able to complete our work and issue our audit opinion.
- The Audit Opinion on the financial statements is unqualified
- That KPMG had viewed the draft governance statement and this was considered to be consistent with our knowledge.
- That in relation to VFM, the various matters highlighted by PWC and additional information received from other parties had been examined and based on this assessment, and an adverse conclusion on the adequacy of the Council's arrangements to deliver value for money would be issued.
- That a Section 11 recommendation would be made recommending that the Council's governance arrangements should be reviewed.
- Normally, such a recommendation would need to be considered by the Council within a month. However, in view of the impending arrival of the new Chief Executive, KPMG were prepared to consider extending this normal deadline requirement..
- That KPMG would not presently exercise its other statutory auditor powers. In terms of a public interest report there had been significant publicity around the matters raised through the PWC investigation. In respect of potential items of account contrary to law KPMG's view is not to seek a declaration from the court given the amounts involved are not material and the relatively small benefit to be obtained from further action and the significant cost to the local taxpayers of taking court action.
- Once all final steps have been completed, the audit opinion will be issued. This was expected to be within the next two to three weeks.

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

- Concerning reasons why issues identified through PWC investigations which were of long-standing had not been made known in previous ISA260 reports, the Committee was informed that since KPMG had

become the Council's external auditors it had identified some such issues and commented on them in previous ISA260 reports. However the cumulative effects of the issues identified had not been evident at the time of earlier reporting.

- The Section 11 recommendations would have no impact on the opinion being issued on the accounts. The publication of a Section 11 recommendation was a separate and compulsory process but it did not prevent the signing of the accounts. Mr Sayers anticipated that the 2013/14 accounts would be finalised in the near future.
- Concerning the status of ISA260 report relating to 2014/15 accounts, Mr Sayers advised that:
  - There might be some effects of the Section 11 publication in 2014/15, in terms of giving an update of progress, but it was not anticipated that it would be necessary to issue a further Section 11 report in relation to 2014/15.
  - The accounts should be ready by the end of the year and requested that Audit Committee should convene in the New Year in order to consider them and the auditor's report on them.
- Responding to a Member comment that the effects of the Section 11 report were likely to continue into future years, Mr Sayers advised:
  - that it was intended that the ISA260 report 2014/15 and those of subsequent years would record progress made to rectify the issues identified.
  - Many of issues that have resulted in the adverse opinion proposed in the ISA260 report before the Committee relating to 2013/14 would still be present into 2014/15 as the organisation was being run in the same way.
- Concerning whether any cross checks and communications had been put in place to ensure that work was being undertaken in a coordinated way, the Corporate Director for Resources informed the Committee that KPMG and Commissioners have met to ensure that each of their aims and targets were focussed towards the same goals. To assure the Committee of this, Directors would have oversight of progress made and demonstrate the direction of travel. A "management response" standing agenda item also would be added to future Audit Committee agendas.

**Action by:** Minesh Jani, Head of Audit and Risk Management

To better facilitate interpretation of complex data, Members enquired whether colour copies could be provided to them.

#### **RESOLVED**

1. That the key issues and recommendations reported at Appendix 1 of the report be noted.
2. That the draft proposed opinion circulated at Appendix 3 to the report be noted.
3. That an extraordinary Audit Committee be convened in the New Year in order to consider the ISA260 report 2014/15.
4. That a standing item titled "Management Response" be incorporated into future agendas to deal with outstanding items outlined by KPMG.

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

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

The Chief Accountant introduced the report. He informed the Committee that as the ISA260 for the period 2013/14 report had been issued the annual financial report could therefore be presented for approval. He advised that a minor amendment had been made to the Annual Governance Statement and the document would be circulated to Members for comment back to the Chief Accountant. Once comments had been received a Chair's action would be requested to approve the revised inspected document (following Members' comments) by e-mail.

In considering the report the Committee noted that some of the achievements listed in the introductory paragraph lacked insufficient detail and should include statistical data to give depth to the statements.

The Committee also queried whether the level of the Council's PWLB borrowing was in the median range relative to other councils. Members were informed that the Council's loans had been placed with banking institutions and the Council was exploring options to repay these. The borrowing level was low.

### **RESOLVED**

That, subject to approval of the revised annual governance statement by the Committee via a Chair's action, the annual financial report for the year ending 31 March 2014, including the statement of accounts for this financial year be approved, having regard for the auditors annual governance report for this period.

### **4.2 Quarterly Assurance Report**

The Head of Audit and Risk Management introduced the report. He advised:

- That the report summarised the internal audit work in the period June - August 2015 and reported the assurance rating of each audit finalised in this period. The Committee noted that 16 audits had been completed in the period, two of which had returned a limited assurance.
- That assigning a limited assurance triggered a follow-up audit focussed around implementation of all recommendations arising from the initial audit.
- That the audit team was presently on target to complete its schedule of audits in accordance with the annual audit plan.

Members noted that there were 'priority one' recommendations yet to be implemented six months after the initial audit had taken place. They were dissatisfied with this situation and advised officers that Audit Committee would

monitor this matter closely with the aim of evidencing improved responses.

They asked:

- That managers explain why recommendations had yet to be implemented.
- That the Head of Audit and Risk Management report to Members any trends which might affect the audit outcomes such as long-term sickness restructures or other influencing factors.
- That a milestone-based programme of recommendations be incorporated into a performance framework for managers to ensure that recommendations can be monitored against targets and implementations pursued.
- That future Audit Assurance reports include milestones to set an expectation of a compliance framework.

**Action by:** Minesh Jani, Head of Audit and Risk Management

#### *Quarterly Audits*

#### *Contract Management of Photocopying and Printing Contract*

The Head of Audit and Risk Management introduced the item informing Members that the follow up audit had returned a limited assurance because of the following issues:

- 11 lease agreements had not been signed by the authority and the supplier.
- Orders were being raised after invoices were received,
- Reports on MFD usage did not capture accurate usage information
- there was no evidence that sample checks of machine usage were being carried out,
- there were no minutes of meetings held in respect of monitoring undertaken by Agilisys in respect of the Xerox contract.

The Head of ICT Client Team responded to the issues raised informing the committee that:

- Difficulties had risen in regard to the first audit recommendation as the procedure was not clear to the client team undertaking the purchases. Therefore leases had not been signed by a member of the Council's Legal Section. These issues have now been resolved.
- Concerning the second recommendation, the non-compliance had arisen as some payments 'overs and unders' were due to the implementation of a new process. This had been rectified.
- Concerning mis-matching usage data, upon investigation it was found that the recording errors originated within the Xerox copier machines which were misreading the types of copying carried out. This was rectified by the implementation of a regular sampling process.
- Concerning the failure to keep detailed minutes of meetings the matter was investigated and it was found that minutes were being recorded via an alternative method. Steps had been taken to rectify this matter.

Responding to a Member question the Head of ICT Client Team informed the Committee that the cost of leases was a fixed sum but the cost of consumables was variable and based upon the usage of the machines.

*Management and Control of Staff Use of Taxis and Minicabs*

The Head of Audit and Risk Management introducing item informing the Committee that the audit examined the procurement arrangements for taxis and minicabs used by staff. A limited assurance had been returned as:

- the framework contract was put in place in January 2014 at the contracts with the providers needed to be signed in accordance with the Council's procedures
- expenditure of the taxi journeys was not been authorised by approved officers in accordance with the scheme of delegation,
- invoices from the provider had insufficient detail

The Service Head Corporate Property and Capital Delivery, Development and Renewal informed the Committee that:

- A four-year contract was signed from April 2012 to bring together a set of formally disparate arrangements and to ensure consistency.
- The authority was now looking at re-procurement in the form of a single contract across all areas of the Council ensure that issues around authority and responsibility are addressed.
- There was a legal query round the process of entering into a contract that related to how staff taxis were ordered - this was reviewed and now undertaken via the FM Helpdesk.
- Procedures were being put in place to ensure that managers are accountable for usage of this resource.
- In regard to requiring drivers to give details of the journeys, it was not easy to persuade taxi-drivers to comply with such a request, some drivers even issued blank receipts.
- There was agreement that there needed to be more stringent practices in regard to taxi waiting times as it was known that waiting taxis caused costs to mounts up.
- It has been difficult to ensure that taxi services be provided through one contractor because of taxi timetabling issues. Therefore the procurement process, will factor in the cheapest and nearest provider.
- In regard to contract management reports it was intended that this issue be resolved through usage of the Council's proprietary software. Additionally the lessons learned from the issues experienced with current contract would be used to better procure the forthcoming contract. Members commended this approach and noted the account given the Service Head.

**RESOLVED**

1. That the summary of audits undertaken and the actions reported by officers ne noted
2. That the opinion assigned to the systems reviewed during the period be noted..



3. That the following steps be taken to strengthen the framework of audit outcomes:
  - That managers explain why recommendations had yet to be implemented.
  - That the Head of Audit and Risk Management report to Members any trends which might affect the audit outcomes such as long-term sickness restructures or other influencing factors.
  - That a milestone-based programme of recommendations be incorporated into a performance framework for managers to ensure that recommendations can be monitored against targets and implementations pursued.
4. That future Audit Assurance reports include milestones to set an expectation of a compliance framework
5. That a performance framework incorporating milestones be established to better ensure that non-compliances identified can be address in a timely and structured manner.

#### **4.3 Social Housing Fraud Update**

The Corporate Anti-fraud Manager introduced the report which provided an update on work concerned with the recovery of unlawfully let public sector dwellings carried out by the Social Housing Fraud Team and performance since the termination of Government funding for this work.

The Committee was informed:

- That Mr Bryce, formerly of the Audit Commission would attend Committee in December 2015 to inform the Committee about protecting the Public Purse.
- That social housing fraud was a national problem.
- Of the team's performance in 2014/15 and the steps taken to enhance resources through the employment of three permanent positions and two temporary positions in conjunction with Tower Hamlets Homes.
- That there was an increased tendency towards action through the Courts before the property became void. This trend created extra work for the Council's legal team and delayed the recovery of units as subtenants often had to be removed before the property could be voided and so recorded as recovered.
- Of the proposal of a "key amnesty" scheme to improve the rate of release of sublet properties.

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

Concerning the Council's recovery performance under the key amnesty scheme in relation to other authorities, the Committee was informed that most other authorities had had between seven and 12 properties returned under the scheme. The initiative was also being copied by other registered social landlords in other boroughs.

There was a rise in resistance to subletting surrenders as this area of activity was lucrative for inappropriate income generation.

Tower Hamlets wished to develop and enter into a voluntary code of practice with letting agents to promote better vetting of prospective tenants. The Corporate Director of Resources suggested that the Corporate Anti-fraud Manager collaborate with the Cabinet Member for Housing, who was reviewing the Council's housing policies and strategy, to explore how the Council could better engage with social registered landlords.

#### **RESOLVED**

1. That the social housing fraud update be noted.
2. That the Corporate Anti-fraud Manager collaborate with the Cabinet Member for Housing, who was reviewing the Council's housing policies and strategy, to explore how the Council could better engage with social registered landlords and promote the voluntary code of practice.

#### **4.4 Single Fraud Investigation Service- Position Update**

The Corporate Anti-fraud Manager presented the report which updated the Committee on the arrangements for the transfer of the existing Housing Benefits Fraud Investigation Service to DWP. The Committee was advised:

- That the service would be transferred in February 2016.
- That the transfer created a potential risk that joined up service working would be lost. To address this, Members were asked to support a proposal that an officer be recruited to investigate and explore new areas of fraud activity such as single person discount fraud and student registration fraud.

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

- The Council did not intend to recruit to the services given over to DWP as this was a smaller area.
- By investing in relevant anti-fraud initiatives potential annual savings of £500,000 could be made in relation to council tax and NNDR fraud.

#### **RESOLVED**

1. That the update on the creation of a single fraud investigation service be noted.
2. That the resource gap the service transfer will create be noted and support in principle be endorsed to minimise the exposure to abuse by resourcing the shortfall from Council funds.

#### **4.5 Annual Risk Management Report 2015/16**

The Head of Audit and Risk Management introduced the report which provided the committee with an oversight of the authority's processes to

facilitate the identification and management of its significant business risks. It also provided a summary of the first quarter 2015/16 corporate risk register and risk management activity over the past 12 months. He advised:

- That the purpose of the report was to enable members to review the risk management arrangements of the authority which were divided into three themes:
  - Identify the corporate risks.
  - The Council's work to manage identified risks.
  - To ensure that risk management work has been embedded in the organisation.
- That it was not realistic to expect all of the Council's risks to be managed down to zero but the purpose of the register was that officers should give thought on the management of their risks in the best possible way.
- That the elements of this process were identification of the risk, and the presence of management controls which would prevent its occurrence.

Members noted the following:

- That many targets in the register will not be met however the register did not indicate whether the trigger was a real or hypothetical threat.
- Some elements of the register were out of date.
- Some of the vulnerability targets were not being met. Members asked at what point the triggers caused the matter to be considered at a directorate management team meeting. Members requested:
  - more information be provided on timescales and basis of the work and
  - to see more of the analysis behind the figures published.
  - To see where the responsibility for the work areas resided. The Corporate Director for Resources agreed to bring a report setting out the risk appetite of the Council and how responsible officers, and Councillors would work to manage the risks faced by the Council in the delivery of its services.

## **RESOLVED**

1. That the contents of the report be noted
2. That the actions highlighted in the Risk Management Action Plan 2015/16 (Section 9 at Appendix 4 of the report) be approved.
3. That, having considered the corporate risks outlined in the report, the risk owner(s) requiring further scrutiny provide a detailed update, at the December 2015 Audit Committee, on the treatment and mitigation of the risks identified including impact on the corporate objectives.

### **4.6 Treasury Management Activity Report for Year to 31 August 2015**

The Chief Accountant introduced the report which provided an update on the treasury management and investment activity carried out by the Council as

that 31st of August 2015. He informed Members that the current low interest economic environment meant that there was little potential to achieve significant investment returns.

Responding to Members questions the Committee was informed that:

- In relation to whether any ratings be damaged as a consequence of the recent decline in the Chinese economy, the Chief Accountant advised that he was not aware of any such effects but asked Members to note the recently downgraded rating of Barclays Banking Corporation.

#### **RESOLVED**

1. That the contents of the treasury management activities and performance report against targets for the period ending 31<sup>st</sup> August 2015 be noted.
2. That the Council's outstanding investments as set out in Appendix 1 to the report and the balance outstanding at 31<sup>st</sup> August 2015 at the value of £415.7 million be noted.

#### **4.7 Audit committee forward plan**

The Head of Audit and Risk Management presented the report which informed Members of the forward plan of Audit Committee business in the forthcoming six months. He asked them to consider the proposed forward plan topics as detailed in Appendix 1 and to give their feedback. He then advised that any amendments would be incorporated into the updated report was next published.

#### **RESOLVED**

1. That the proposed forward plan for committee business as detailed in Appendix 1 to the report be noted
2. That it be noted that any amendments to the plan will be reported as a standard item on the agenda.

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

Nil items.

The meeting ended at 9.10 p.m.

Chair, Councillor Candida Ronald  
Audit Committee

Non-Executive Report of the: <b>Audit Committee</b> 8th December 2015	 <b>TOWER HAMLETS</b> Classification: Unrestricted
<b>Report of:</b> Zena Cooke - Corporate Director - Resources	
<b>Quarterly Assurance Report</b>	

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

## 1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period September 2015 to November 2015.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

## 2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

### **3. Background**

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

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

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





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

### **4. Overall Audit Opinion and Direction of Travel**

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

#### 4.2. Direction of Travel

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

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

#### 5. Overview of finalised audits

5.1. Since the last Assurance Report that was presented to the Audit Committee in September 2015, sixteen final reports have been issued. The findings of these audits are presented as follows:

- Chart 1 below summarises the assurance rating assigned by the level of significance of each report.
- Appendix 1 provides a list of the audits organised by assurance rating and significance.
- Appendix 2 provides a brief summary of each audit.

5.2. **Members are invited to consider the following:**

- The overall level of assurance provided (para 5.3-5.5).
- The findings of individual reports. Members may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.

5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2015 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

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

**Chart 1 Analysis of Assurance Levels**

SUMMARY		Assurance				
		Full	Substantial	Limited	N/A	Total
Significance	Extensive	-	3	3	2	8
	Moderate	1	6	-	-	7
	Low	-	-	1	-	1
<b>Total Numbers</b>		<b>1</b>	<b>9</b>	<b>4</b>	<b>2</b>	<b>16</b>
<b>Total %</b>		<b>6%</b>	<b>56%</b>	<b>25%</b>	<b>13%</b>	<b>100%</b>

- 5.4. From the table above it can be seen that of the eight finalised audits which focused on high risk or high value areas; three were assigned Substantial Assurance, three were assigned Limited assurance and two were not assigned assurance levels due to the nature of those specific audits. A further seven audits were of moderate significance and of these six were assigned Substantial Assurance and one was assigned Full Assurance. The remaining Limited assurance audit was of low significance.
- 5.5. Overall, 62% of audits resulted in an adequate assurance (substantial or full), 25% of audits have an inadequate assurance rating (limited or nil) and remaining 13% have Not Applicable status.



## **6. Performance Indicators**

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

<b>Performance measure</b>	<b>Target</b>	<b>Actual</b>
Percentage of Audit Plan completed up to the quarter 2 to September 2015	40%	40%
Percentage of Priority 1 Audit Recommendations implemented for Qtr 2 by Auditees at six monthly follow up audit stage	100%	82% 9 out of 11
Percentage of Priority 2 Audit Recommendations implemented for Qtr 2 by Auditees at six monthly follow up audit stage	95%	100% 1 out of 1

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 82%, whereas the percentage of priority 1 recommendations was 100%. Details of priority 1 recommendations not implemented are set out in Appendix 3. Further to the usual escalation actions to the relevant Corporate Director and Service Heads, the Corporate Director - Resources has also been informed.

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

- 7.1 This is a quarterly noting report covering the period September 2015 to November 2015. There are no specific financial implications arising from the contents of this report.

## **8. Legal Comments**

- 8.1 The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 8.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates

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

## **9. One Tower Hamlets**

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

## **10. Best Value Implications**

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

## **11. Risk Management Implications**

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

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

- 12.1. There are no specific SAGE implications.

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

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

**APPENDIX 1**

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
<b>LIMITED</b>			
	Extensive	Adults Services	Monitoring of Public Health Contracts – Systems Audit
	Extensive	Communities, Locality and Culture	Highways Repairs and Maintenance – Systems Audit
	Extensive	Resources	Control and Monitoring of Cash and Cheque Income
	Low	Children’s and Adults Services	Management and Control of Petty Cash – Systems Audit
<b>SUBSTANTIAL</b>			
	Extensive	Development and Renewal	Management and Control of Mayoral Community Infrastructure Levy (CIL)
	Extensive	Resources	Management and Control of Insurance Claims Processing by LBTH
	Extensive	Tower Hamlets Homes	Asbestos Management
	Moderate	Children’s Services	Follow-up Report - MSG Lunch club Services
	Moderate	Children’s Services	Children’s House Nursery School
	Moderate	Children’s Services	Clara Grant Primary School
	Moderate	Children’s Services	Hermitage Primary School
	Moderate	Children’s Services	Cubitt Town Junior School
	Moderate	Development and Renewal	Private Sector Home Improvement Grants
<b>FULL</b>	Moderate	Communities, Locality and Culture	Rechargeable Works – Follow Up
<b>N/A</b>	Extensive	Development and Renewal	Homelessness Strategy
	Extensive	Tower Hamlets Homes	Processing of Housing Insurance Claims by THH

**Summary of Audits Undertaken  
Limited Assurance**

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Monitoring of Public Health Contracts for :-</p> <p>Smoking Cessation</p> <p>Healthy Start Vitamins</p> <p>Health Trainers</p>	<p>Sept. 2015</p>	<p>This audit examined the arrangements for monitoring Public Health Contracts commissioned by the Council following the transfer of the service from NHS. The Council procured some £22.4 Million of new contracts from various providers.</p> <p>Our review of a sample of contracts showed some common and specific issues which are detailed below:</p> <p>Although there were overarching contract monitoring procedures in place, these were not dated and version controlled. There were no contract-specific monitoring procedures devised for each individual contract. In absence of these procedures, we could not carry out full testing to provide assurance over the quality of monitoring. For example, we could not evidence how the output and outcome information provided by the contractors was substantiated and verified for accuracy. There were no unplanned visits to contractors' sites/offices to carry out an assessment and verification of the integrity of the contractor's performance data. Contracts were still with legal services for signing, and some of these were near completion of their first anniversaries. Operational risks had not been identified by contractors or by monitoring officers, to ensure that monitoring was focused on these critical areas. Although payment procedures were stipulated in contracts, we found some cases where payment conditions were not entirely compliant. There were no procedures that defined how monitoring information on outputs and outcomes would be evaluated and reported holistically to higher level management</p> <p>All findings and recommendations were agreed with the Public Health Programme Manager and final reports were issued to the Director of Public Health and Director of Adults Services.</p>	<p>Extensive</p>	<p>Limited</p> <p>↕</p>

**Management Comments**

Public health commissioning transferred to the Council in April 2013 and since then all public health contracts have been re-procured under Council procurement procedures. We welcomed the audit review as an opportunity to identify where we need to strengthen contract management and we are implementing a programme to ensure compliance with contractual requirements, and to improve performance monitoring and performance management.

Since the audit reported we have checked levels of compliance with the risk issues identified by the audit across all the public health contract portfolio and are identifying a detailed action plan for each contract to address any gaps. All contracts will be risk-assessed and reviewing the risk register with the contractor will be embedded in the quarterly monitoring procedure. We are carrying out more cross checks on performance information supplied and have started a programme of visits to services. We have introduced a new contract payments process that establishes a stronger link between the checking of performance each quarter and the authorising of appropriate payments to the contractors. As far as we are aware there was only one overpayment identified and this was detected by our own payment system and the amount returned to the Council.

The audit findings and changes to our contract procedures were discussed at our last Delivery Board meeting on 14<sup>th</sup> October. We have implemented a quarterly process for the reporting of key KPIs across all contracts to our Delivery Board meetings which are attended by the Director of Public Health and senior managers. We now ensure that our Contract Management Procedure Note is version controlled and dated and each commissioning officer is required to agree a specific monitoring schedule for the contracts they are responsible for.

There has been a significant increase in the number of signed contracts but it remains challenging to get signed contracts in place from some of our key contractors, notably Barts Health.

We would like to note additionally that the Smoking Cessation Network Enhanced Service is a service delivered through GP networks and transacted via the CCG. It is subject to slightly different processes and there is a joint monitoring process with the CCG. We are discussing with the CCG how we can ensure that the performance monitoring meets all the requirements.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Highways Repairs and Maintenance Works  Systems Audit	Oct. 2015	<p>This audit was undertaken at the request of the Interim Service Head, Public Realm, who had concerns around some control weaknesses in the system for highways repairs and maintenance works. The Council is responsible for undertaking repairs and maintenance of roads and highways that have been legally adopted by it. The Council procured a five year contract in October 2014 for these works. The estimated value of the contract is £1.2 million per annum. The objective of this audit was to work with Management to identify key controls and risks in order to make the system more sound and secure.</p> <p>From our review we found the following issues:</p> <ul style="list-style-type: none"> <li>• Clear procedures needed to be put in place to document key roles, responsibilities and processes for ordering, payment control, variations control, post-inspections etc.</li> <li>• Clear monitoring procedures needed to be documented defining the duties and functions to be undertaken by the nominated Contract Manager for an effective monitoring to be undertaken of the contract.</li> <li>• At the time of audit, the contractual access to the contractor's Asset Management System was not in place for the management and monitoring of the highways assets and the contract.</li> <li>• A complete audit trail to track requisitioned work, orders and payments was not in place and a clear process for carrying out quality checks of materials used and works undertaken was not in place;</li> <li>• Whilst KPIs were being measured and reported upon on a quarterly basis, there were no local KPIs for overall monitoring of the contractor's performance.</li> </ul> <p>All findings and recommendations were agreed with the Interim Head of Clean and Green and final report was issued to the Interim Service Head, Public Realm and Corporate Director, CLC.</p>	Extensive	Limited ←

**Management Comments**

- All procedure documents have been created to document key roles and responsibilities for both internal and external stakeholders. Process maps detailing procedures have been. Process maps have been created for functions such as; Scheduled highway inspections, Payments, Pre/Post monitoring inspections and reactive inspections.
- Workflow in Mayrise will provide evidence of how variations are authorised and controlled. Variations that exceed set tolerances will need to be approved by manager before works is carried out.
- All procedure and monitoring documents have been distributed to internal and external stakeholders.
- Access to Mayrise has been given to LBTH officers. LBTH officers have received training and the system is now being used. Handheld devices associated with the Mayrise system have been issued and will be allocated to LBTH staff carrying out reactive inspections. A workflow has been set up to approve works orders for lower category defects.
- New procedure put in place, where LBTH highway officer approves CAT 2 works on Mayrise. Procedures circulated to officers to check repairs are carried out in accordance with the timescales stipulated within the contracts.
- All jobs created as a result from planned inspection are recorded on Mayrise via handheld. The category of the defect and all necessary repair details is recorded and actioned according to procedure set. LBTH have access to Mayrise and are able to view all jobs created.
- Approval of invoices, is a Corporate Finance problem as the Agresso System does not provide the details of each works order (Applications for Approval) to reconcile against the order number. This is out of our control and the matter has been raised with the Agresso team to find a suitable solution.
- Overall monitoring of the contractors performance will done via checking of Variation orders which will be discussed on a regular basis within the monthly contract management meetings. Variation orders are set as item on agenda. Procedures for checking rates of charges are in place. Highway team tasked to monitor charges on a frequent and random manor. This will ensure a stricter monitoring regime is adopted on the contractor.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Cash Income and Disbursements (C&D)  Systems Audit	Oct. 2015	<p>This audit reviewed the Council's arrangements for managing and monitoring cash and cheque income collected and banked by some 66 designated Collecting Officers across the Council. With the implementation of the Agresso system, posting of cash income was centralised. Collecting Officers are required to submit electronic C&amp;D returns along with supporting documentation on a weekly or monthly basis to the Operations Accountancy Team (OAT) at the Centre, where necessary checks are undertaken before submitting the C&amp;D electronic returns for uploading to Agresso GL system. For 2014/15, the total cash and cheque income collected and banked for period up to 16<sup>th</sup> March 2015, amounted to some £9.6M.</p> <p>Our testing showed that a system was set up for receiving, recording and processing C&amp;D Returns and to carry out reconciliations of amounts recorded on C&amp;D returns with amounts banked. A system was also in place to manage the uploading of C&amp;D onto Agresso GL. However, we noted that clear guidance needed to be provided to cash collecting officers to ensure that completion of the C&amp;D's and supporting documentation complied with sound financial practice. In addition, cases where errors were reported at the uploading stage, were referred to Finance Officers for further investigation, which were in turn referred to the Collecting Officers rather than an independent officer for investigation and rectification. Regular management reports were not always produced to take proactive action to deal with issues like bankings not supported by C&amp;D returns; missed bankings; mis-matched items in GL; undisbursed income etc. Internal Audit, requested such a report for 2014/15, which showed that of the £9.6M income banked, £1.8M remained to be credited to the correct accounts at the time of the audit. Other issues reported included, timely and consistent recording, reviewing and monitoring of Control Logs and alerting the relevant officers promptly where bankings have been missed.</p> <p>All findings and recommendations were agreed with the Interim Service Head, Finance and Procurement and final report was sent to the Corporate Director, Resources.</p>	Extensive	Limited ↕




### **Management Comments**

Officers in the Operations Accountancy team have implemented the recommendations of the Internal Audit report. This includes the revision and standardisation of C&D returns and procedure notes. Officers in the Operations Team took on the C&D work in February 2014 following a re-organisation and have reviewed procedures to improve processing.

Exception reports are produced by the Operations Team to identify un-disbursed income. Control logs will be used to ensure errors are recorded and escalated to Finance Business Partners and resolved. A system of escalating non-compliance is being introduced.

Operations officers are aiming to clear the back-log of undisbursed income by the end of 2015. This is dependent on receiving records from the collecting officers.

Officers are also considering the introduction of a new C&D processing system used at another London Borough to make processing of C&Ds easier.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Adults and Children's Services – Petty Cash	Sept 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around Petty Cash within the Adults and Children's Services Directorates are sound, secure and adequate. During 2014/15 and 2015/16, total sums of £186,812 and £115,466 respectively, were spent through some 19 accounts within the two Directorates. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• A number of issues were identified in relation to the management of petty cash, e.g. expenditure which should have been claimed via the expenses system, reconciliations not being undertaken, differences between the amount of petty cash held plus the vouchers, inconsistencies in records maintained to actual amounts held, loose change being kept in tills, etc. In five out of eight cases tested, differences existed between the amount of petty cash held plus the vouchers and the amount of petty cash imprest amount in the petty cash record. The officers did not have valid reasons as to why the differences existed.</li> <li>• In five out of eight cases, it was identified that the claims were not submitted in line with the Council's policy in relation to the reimbursement claims being submitted no later than one month after the expenditure has been incurred.</li> <li>• The 'Summary of Petty Cash Accounts' spreadsheet is not accurate, as account number 61548585 has an actual float of £1,500 as per the petty cash account holder, but on the spreadsheet received, the amount of the float is £699.26.</li> </ul> <p>It should be noted that the Financial Services Group is currently undertaking a review of all petty cash accounts in existence at the Council with a view to discontinuing as many of these as possible.</p> <p>All findings and recommendations were agreed with the Finance Business Partner, and reported to the Service Head Children's and Adults Resources, the Corporate Director of Resources, the Interim Corporate Director of Children's Services, and the Interim Corporate Director of Adult Services.</p>	Moderate	Limited 

**Management Comments**

1. A review of Petty cash accounts is being completed with the aim to reduce the number of accounts in operation. The remaining account holders will be provided with training on how to administer a petty cash account and the financial rules to adhere to. Non-compliance will also be escalated and the relevant policies used to deal with repeated failure. On the completion of the review a revised control spreadsheet will be updated and maintained.
2. Responsibilities concerning modifications to accounts and the relevant procedure will be covered in the training which will be delivered and will be communicated to account holders in the interim.

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Mayoral Community Infrastructure Levy (CIL)	Oct. 2015	<p>The Mayoral Community Infrastructure Levy (CIL) was introduced by the Mayor of London in April 2012 to fund strategic developments in the capital, focusing primarily on the Crossrail. As at March 2015, a total amount of £9,017,605 had been collected by LBTH and £8,656,901 had been paid to Transport for London. The remaining £360,704 had been retained by LBTH for administering CIL. This audit involved an examination of the systems of control in place for the Mayoral CIL, which forms the basis for managing the LBTH CIL implemented in April 2015.</p> <p>Our review showed that procedures were in place to administer the CIL and all relevant staff were aware of these procedures and the CIL Regulations. CIL monies were correctly calculated and invoices were raised to the Developers within reasonable timescales of issuing the demand notice. Monies collected were passed over to TFL on a timely basis.</p> <p>However, we found that the manual process for calculation of CIL was very complex and needed to be automated to provide efficiency and accuracy in the process. In addition, procedures needed to be put in place for checking and certifying the CIL liability by a second officer before the liability notice was issued to the Developer. A tracking mechanism was not in place for triggering the necessary checks to validate the reliefs granted from CIL to Developers.</p> <p>All findings and recommendations were agreed with the Service Head, Planning and Building Control 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
Management and Control of Insurance Claims Processing by LBTH	Oct 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around the Insurance Claims system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• From our review of the list of users with access to the LACHS system, it was determined that the list of users included a former employee (RD). Although, we were informed that LACHS access had been removed for this user, this could not be confirmed as the employee was still on the list of users with access to LACHS.</li> <li>• All claims should be processed and decisions made in line with the protocol period of the claim being notified to the Council by the claimant, i.e. within 40 working days for Public Liability Claims presented by a solicitor and 30 working days for Employer's Liability Claims presented by a solicitor and three months for any other claims. From our testing we identified one of a sample of 20 claims where the protocol period had been exceeded.</li> <li>• No formal process is in place for assessing and monitoring the performance of the Insurance staff against agreed targets of claims processed, time taken to process claims, etc.</li> </ul> <p>All findings and recommendations were agreed with the Insurance Manager and reported to the Head of Risk and Audit, and the Corporate Director of Resources.</p>	Extensive	Substantial ↔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Management of Asbestos	Oct 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around the Management of Asbestos system are sound, secure and adequate. Management of Asbestos is a key part of THH's Health and Safety Policy and procedures. The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• Contractors have access to the asset management system Keystone, so that relevant staff members are aware of the contents of the Asbestos Register. However, it was identified that the contractors are not logging in on Keystone on a regular basis. Whilst we understand that this is not direct evidence that Mears is not ensuring that its staff and contractors are fully apprised of asbestos issues when undertaking visits to properties, it does identify the potential for such a situation to arise and that THH would not necessarily be aware of this.</li> <li>• We identified one Instance where Mears Contractors had cancelled a post completion inspection and no action had been taken by THH.</li> <li>• The Health and Safety Manager informed us that the current financial year's inspections programme was in the process of being completed. However, evidence of previous financial year's programme was not provided and we have no other evidence that such a programme of inspections was in place.</li> <li>• The policies and procedures should be regularly reviewed and updated if necessary, i.e. on an annual basis. However, it was noted that a schedule for review (Version History Control) was not in place and the Asbestos Policy was last updated in 2011.</li> <li>• The Keystone Asbestos Register is not updated on a timely basis in all cases and examples were noted where incorrect information had been recorded.</li> <li>• There is no 'Asbestos Response File' or similar summary record in place which may result in the inappropriate handling of client requests.</li> </ul> <p>All findings were agreed with the Head of Resources and reported to the Director of Finance, and the Chief Executive.</p>	Moderate	Substantial ↕

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Monitoring of Mainstream Grants – Luncheon Clubs Adult Services</p> <p>Follow Up audit</p>	Oct. 2015	<p>This audit followed up recommendations made at the conclusion of the original audit report finalised in August 2014. Ten Mainstream Grant projects from the previous programme providing Older People Lunch Services, were randomly selected for audit testing.</p> <p>The audit confirmed that adequate progress had been made in implementing the agreed audit recommendations. Out of seven high priority recommendations followed up, five had been implemented. In addition, the one medium priority recommendation followed up was fully implemented.</p> <p>We found that the Project Performance and Delivery Health Check report and standard monitoring templates and tools had been revised and successfully implemented for monitoring visits. These visits now required an examination and verification of project expenditure to confirm that the grant was used for the agreed purposes. However, the work to develop an overarching contract management and monitoring framework covering all contract monitoring undertaken by the Team had not been completed.</p> <p>An examination of monitoring visit reports showed that a number of organisations were not complying with grant conditions and the adequacy of monitoring previously undertaken was of concern. However, adequate action plans to address these issues had been put in place. The Monitoring Team was working with providers to ensure that valid Food Registrations were in place, not only for organisations cooking meals on-site but also organisations purchasing meals from other food premises which should have valid registration.</p> <p>All findings and recommendations were agreed by the Interim Service Head, Commissioning and Health and final report was sent to the Director of Adult Services.</p>	Moderate	<p>Substantial</p> <p>⇒</p>

## Substantial Assurance


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Children's House Nursery School	Sept 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and Resources Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• From examination of a sample of three higher value purchases above £2,001, two instances did not have a sufficient number of quotes. Whilst we understand that the decision to continue with the current suppliers was approved by the Finance and Resources Committee, this approval and the reasons for it were not explicitly documented within the minutes of the meeting and therefore we were unable to evidence that formal approval had been granted.</li> <li>• Our review of the School's "Children's House Nursery School Financial Procedures Manual" document identified that authorisation limits were not specific and did not cover the full scope of operations at the School. For example, authorisation limits for signing cheques, raising invoices and raising purchase orders were not stated within the document.</li> <li>• For five out of ten purchase orders sampled the official order form was raised after receipt of the invoice. A number of these orders related to purchases made online from Amazon which were paid for by a member of staff who used their personal payment card and then reclaimed the expenditure from the School.</li> <li>• Examination of the School's Debt Recovery and Write Off Policy noted that the date of review was not stated on the document; therefore the date of last review could not be ascertained.</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's Services.</p>	Moderate	Substantial ↔



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Clara Grant Primary School	Sept 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and Resources Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• From our sample testing of 10 transactions, it was noted that in three cases, purchase orders were not raised. In addition, in all cases tested, the Finance Officer had raised the order and also signed to confirm the receipt of the goods.</li> <li>• Discussions identified that monthly budget monitoring was conducted and while copies of the monthly reports were available, these did not evidence who had conducted the monitoring.</li> <li>• It was evidenced for a period of time that the monthly bank reconciliations were being performed by the School Finance Officer and signed by the Head Teacher but this was not the case in the last three months sampled.</li> <li>• The School has two accounts which are dormant and have remained dormant for a few years. The Head Teacher advised us that the funds had been designated for a project a few years ago but the project was cancelled, hence the funds have remained in these accounts and the lack of activity of the account has resulted in the accounts becoming dormant.</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’s Services.</p>	Moderate	Substantial ↔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Hermitage Primary School	Oct 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a 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>• It was established that whilst the School budget had been approved by the Resources Committee on 28<sup>th</sup> April 2015, this has yet to be approved by the Full Governing Body, as there is no meeting planned until the end of July. The result of this is that the School had been without a formally approved budget for a period of three months at the time of the audit.</li> <li>• For four out of 10 purchase orders sampled there was no evidence that an official order form had been completed (cheque numbers: 3811, 3985 and 4020 and a MasterCard transaction). For the remaining six purchase orders sampled with an order form attached, two had not been raised in advance of the invoice date (cheque numbers 4126 and 3818).</li> <li>• A sample of five new starter files was tested. In two instances, documentation to evidence that a medical check had been completed was not held on file. The School had chased the Council's HR team and requested that the documentation be provided, but no response has been received to date.</li> <li>• It was established that the Governing Body approved the budget created by the Head Teacher for School Journeys in advance. However, a subsequent 'End of Journey' statement, which details the income and expenditure of the journey was not prepared and presented to Governors in respect of the France trip.</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's Services.</p>	Moderate	Substantial ↔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cubitt Town Junior School	Oct 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and Curriculum Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The School's Financial Procedures Manual which incorporates the Scheme of Delegation highlights that the Financial Consultant is to provide monthly budget reports to the Head Teacher to review. Discussions with the Head Teacher and the Financial Consultant established that a monthly meeting is held between them to review the budget; however, there was no minutes retained of these meetings and the reports were not signed as evidence of the Head Teacher's review.</li> <li>• Testing of a sample of 10 transactions identified one instance where the amount was annotated as checked and certified for payment on a copy of the order. It was noted that a copy of the invoice was not held. In one case, although a works request had been raised by the Site Manager, it had not been costed and there was no evidence an official order had been raised.</li> <li>• It was established that the annual inventory check had been completed in February 2015 and had been provided to the Chair of Governors. From examination of meeting minutes subsequent to February 2015, it could not be ascertained whether the outcome of the check had been discussed or agreed.</li> <li>• Whilst we noted that transfer of income was comprehensively recorded and signed for on a dedicated document, we also identified on the document that banking of the income was not always regular. Some amounts banked were relatively material indicating that the insured safe limit may have been exceeded on these occasions.</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's Services.</p>	Moderate	Substantial ↔


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Private Sector Home Improvement Grants  Systems Audit	Nov. 2015	<p>This audit provided assurance that systems and controls for administering, assessing, approving and paying the Home Improvement grants awarded to the private sector were sound and secure. The budget of £500k was allocated.</p> <p>Our testing showed that policy and procedures were in place, which included clear definition for each type of discretionary grant, and also eligibility and assessment process for each grant type. Once eligibility and assessment was determined, officer recommendations were made to the Grant Panel, which had Terms of Reference. Notes of meetings showed that the Panel met fortnightly and decisions were taken in quorum. Individual cases could be traced to the minutes of the Panel. There was good audit trail throughout the process. Documentation from applicants, contractors, inspectors and regulating agencies clearly depicted the workflow. Grant files were of good quality and arranged in logical order. There was a system of performance indicators designed to monitor expected milestones. Payment claims made by applicants were supported by contractors' invoices and payments were approved in accordance with procedures.</p> <p>However, we reported some control weaknesses such as procedures for staff needed to be brought together in a coherent document to provide guidance on processes for carrying out full assessment of the property and the applicant's financial status to complete the improvement works. Guidance on verification of the sources of funding provided by the applicants was also required. The delegated financial limits for officers needed realigning with the Council's Scheme of Delegation. The Terms of Reference for Grants Panel was not up to date to ensure an adequate separation of duties and accountability of the Panel Chair. The authority structure for waiving the grant policy needed to be reviewed and approved to safeguard against risk of bias, errors and irregularity. Cost benefit analyses, including homes brought back to use and let out to homelessness families needed to be performed to demonstrate that objectives in providing the grants had been met.</p> <p>All findings and recommendations were agreed with the Service Head, Strategy and Regeneration and final report was issued to the Corporate Director of Development and Renewal.</p>	Moderate	Substantial 

**Full Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Rechargeable Works</p> <p>Follow Up Audit</p>	<p>Oct. 2015</p>	<p>This audit followed up recommendations made in the original report finalised in March 2015. This audit examined controls for charging Developers for highways related works carried out under Section 278 Agreements.</p> <p>Out of four high priority recommendations followed up, our testing showed that all four had been implemented in full.</p> <p>A system has been put in place to ensure that where works commence more than twelve months from the date of the legal agreement and the Council establishes that the estimated cost is not sufficient, then a revised estimated cost is being provided to the developer prior to the commencement of the works. These costs are being recovered before the works commence on site.</p> <p>On completion of works under each s278 Agreement, a final account is now being prepared and forwarded to the developer to ensure that any overcharges are refunded and undercharges including fees are recovered.</p> <p>Suitable wording has been added to the draft s278 agreement that informs the developers that payment is to be made by BACS transaction only.</p> <p>A system has been developed to enable the fees charged for each scheme to be commensurate with the rate at which the works were completed and charged rather than on an historical basis.</p> <p>All findings were agreed with the Service Head, Public Realm and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	<p>Moderate</p>	<p>Full</p> <p>⇒</p>

**Assurance Not Given**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Homelessness Strategy	Nov 2015	<p>The audit was designed to provide assurance to management that there are appropriate arrangements in place for managing and delivering the Tower Hamlets Homelessness Strategy.</p> <p>The Council produced a Homelessness Statement for 2013-17, approved by the Cabinet in July 2013. This Statement described the borough's approach to tackling homelessness, setting out the direction and priorities for the five year period. This Statement was regularly discussed in 2012 and 2013 at the Homeless Partnership Board, prior to its approval. However, it was noted that there is no overarching Housing Strategy currently in place, with the previous version covering the period from 2009-12. The Homeless Partnership Board has not met since 13<sup>th</sup> June 2013 and no action plan had been produced to support the delivery of the Homelessness Statement. In addition, roles and responsibilities in terms of delivery of the Statement had not been clearly defined. We also recommended that once the action plan has been produced and appropriately approved, progress against the action plan should be regularly reported to the Homelessness Partnership Board. In addition, management should also ensure that progress is regularly reported to senior management, members and stakeholders.</p> <p>All findings and recommendations were agreed with the Service Head, Strategy, Regeneration, Sustainability, and reported to the Corporate Director, Development and Renewal.</p>	Extensive	<p>N/A</p> 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Housing Insurance Claims Processing and Control.	May 2015	<p>The audit was designed to document the system in place in respect of housing insurance claims administration by THH. The audit sought to review the system from a customer perspective, taking account of the number of different organisations involved in the process. The audit followed the customer journey from beginning to end of the process and hence did not provide an audit opinion. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• There is currently no target timeframe for THH officers to complete the CF2 forms, or a formal performance monitoring process in place to determine the numbers of claims which are delayed; in testing, it was found that delays of over a month were common, with one taking over six months to be completed by the Housing Officer and returned to THH.</li> <li>• The leaseholders and tenants handbooks do not include adequate information on the insurance claims process, and the webpage on leaseholders claims could be made easier to locate.</li> <li>• The template claims forms in place need to be redesigned in order to be clearer for both public and staff users, both in explaining the claims process and setting out how to users are meant to complete them.</li> <li>• The policies, procedures, and template letters in place at THH and LBTH require updating, and agreement needs to be reached between both parties over the new forms to be used.</li> <li>• Delays in communications between the housing officers and the Insurance team were noted in testing in a number of cases, as well as in contacting the claimants to update them on the status of their claims.</li> <li>• Performance reports are no longer produced by the LBTH Insurance Team. Previously these reports were sent to the Head of ICT, Risk, and Contract Governance at THH, on a quarterly basis.</li> </ul> <p>All findings and recommendations were agreed with the Head of Customer Access and Facilities, and reported to the Director of Finance, and the Chief Executive.</p>	Moderate	N/A 


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

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Service Head</b>	<b>Officer Name</b>
Monitoring of Mainstream Grants – Luncheon Clubs	It should be ensured that monitoring visits includes examination and verification of project expenditure in order to confirm that the grant was being used only for the purpose for which it had been agreed	Karen Sugars	Barbara Disney
Monitoring of Mainstream Grants – Luncheon Clubs	Officers should ensure that all organisations have registered their locations (from where the Lunch Club service is delivered) as a food premises with the Councils Environmental Health Team (as per pre-award condition 1.2). The officers' monitoring checklist and monitoring report should be updated accordingly.	Karen Sugars	Barbara Disney





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Non-Executive Report of the: <b>Audit Committee</b>  8th December 2015	 <b>TOWER HAMLETS</b> <i>Classification:</i> <i>Unrestricted</i>
<b>Report of:</b> Zena Cooke - Corporate Director - Resources	
<b>Revised Audit Plan</b>	

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

## 1. SUMMARY

- 1.1. This report provides an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan as a result of changing priorities of the authority within the resources available to perform audit work.

## 2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the changes proposed and to endorse the revised 2015/16 internal audit plan attached at Appendix 2.
- 2.2 The Audit Committee is asked to note the resourcing of the audit plan, as detailed at para. 4.1 of this report.

## 3. Background

- 3.1 The original internal audit plan was prepared at the start of the current financial year and was presented to Audit Committee for endorsement in March 2015. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised. In developing the internal audit plan for 2015/16, consideration had been given to the matters raised in the PWC report issued in November 2014 and the subsequent directions from DCLG in December 2014, which had the effect of increasing the work of the audit team by 200 days over the 2014/15 internal audit plan.

3.2 In line with the internal audit strategy, the plan has been refreshed and some changes made to the original annual audit plan. The reasons for this are as follows:

- Requests from officers to perform audits that were not originally planned;
- Requests from officers to increase the scope of audits which has resulted in higher allocation of audit days;
- Requests from Chief Officers to defer audits due to service restructuring, other external inspections and changes made to existing systems and the need to allow a period of bedding in;
- Make use of days provided in the original plan that had not been allocated to specific audits.
- To avoid duplication of work with either the external auditor or other assurance provider; and
- Additional commitment to unplanned work.

#### 4. Updated Internal Audit Plan for 2015/16

4.1 Appendix 1 summarises audits that have been added to or deferred from the original internal audit plan. Audits listed in Appendix 1 which are proposed to be carried forward to 2016/17, could still be scheduled for 2015/16 if resources permit. The summary below shows how the plan has changed from that approved in March 2015.

Number of days originally planned	1,630
Add: Additional audits added to the plan (Please refer to Appendix 1)	140
Less: Audits to be considered as part of 2016/17 Audit Plan (Please refer to Appendix 1)	74
Less: Use of previously unallocated days to specific audits	41
Less: Use of reactive fraud allocation	25
Number of days per the Revised plan	1,630

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

- 5.1 The revised audit plan will be delivered through existing resources and there are no financial implications as a consequence of the changes detailed within this report.

## **6. Legal Comments**

- 6.1. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 6.2. Under sections 15(5) and 15(6) of the Local Government Act 1999 the Secretary of State for Communities and Local Government issued legally enforceable directions in order to ensure that the Council complies with its obligations under part 1 of the Local Government Act 1999. Action 1 to be taken by the Council in respect of the Directions (as stated in Annex A to the Directions) the Council is to agree a plan with the Commissioners to ensure the compliance by the Council with the remainder of the directions. In preparing the Audit Plan, due consideration has been given to the Directions and Best Value Plan presented to the Commissioners.
- 6.3. Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **7. One Tower Hamlets**

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

## **8. Best Value Implications**

- 8.1. The revised plan includes areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

## **9. Risk Management Implications**

- 9.1. In compiling the original and the revised audit plans, the Council's Corporate and Directorate level risks have been considered. These risks have been programmed for review within the scope of individual audits listed in the plan.

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

- 10.1. There are no specific SAGE implications.

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

- 11.1. By having a sound planning system for a systematic and independent review of the Council's internal controls, governance and risk management, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

## A Summary of Changes to the Internal Audit Plan – 2015/16

	Directorate	No. of days	No. of days
<b>Original 2015/16 Audit Plan</b>			<b>1,630</b>
<b><i>Audits Added to the Original Plan</i></b>			
Election Court Enquiries/Due Diligence	CORP	30	
Troubled Families Grant Verification	ESCW	15	
Youth Service Review	CLC	25	
Ben Jonson School - Investigation	ESCW	20	
Markets – Management of Vouchers	CLC	15	
Poplar Mortuary	CLC	15	
Lettings arrangements	D&R	20	
<b><i>Sub Total</i></b>			<b>140</b>
<b>Less</b>			
<b>Audits amended and carried forward to 2016/17 due to additional requests above</b>			
Council Tax Reduction Scheme	RES	15	
Mayors' Advisors – Contract Monitoring	LPG	10	
Community Champions	CLC	10	
Voids Controls	THH	12	
Delivery of Economic Benefits	D&R	12	
Communications Strategy - Compliance	LPG	15	
Use of Management Request contingency		41	
Use of Reactive Fraud provision		25	
<b><i>Sub Total</i></b>			<b>140</b>
<b>Total Revised Plan</b>			<b>1,630</b>



# London Borough of Tower Hamlets

## Risk, Internal Audit and Control – Revised Audit Plan





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# Foreword

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The role of internal audit is important in supporting organisations achieve their goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2015/16 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, consultancy audits, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

In preparing the plan, it is important to recognise the contributions made by officers at the Departmental and Corporate Management Teams, the S151 Officer, and the Chair of the Audit Committee for which I am grateful.

Minesh Jani  
Head of Risk Management and Audit

# Context

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Risk taking is vital to the success of any business; it is inherent in everything we do. All too often, however, risks are regarded only as hazards despite the fact they can present significant opportunities for organisations to innovate and gain short and long-term competitive advantages. Risk and opportunity are, in essence, a duality – like two sides of the same coin.

The Good Governance Standard for Public Services identifies that ‘Good governance means “taking informed, transparent decisions and managing risk”. This implies creating a framework of enterprise-wide risk management that is embedded in the ‘business as usual’ operations and viewed as an integral component of how the organisation is governed.

Risk management is not about avoiding or eliminating risk. It is about understanding what risks are and the potential impact upon the organisation should the risks materialise and also about controlling risks when they arise.

Embedding good, enterprise-wide risk management systems will facilitate the achievement of our strategic objectives.

Internal Audit and their evaluation of controls provide an important part of the tool kit that the Corporate Management Team and the Audit Committee have in evaluating the risks being faced by the organisation, and the controls that are in place to mitigate these risks.

# Key Risks

The Audit Plan is based on three principal sources of information – Risk Registers (Strategic Risks and Directorate based service risks), our own risk analysis and management request. In formulating the Audit Plan, the key corporate risks and Directorate based risks have been considered. There are **11 corporate risks** currently facing LBTH which are being monitored by the CMT and the Audit Committee and are summarised below. These risks have been referenced within the Audit Plan, where applicable.

Risk Ref..	Risk
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.
DRA0016	Failure to meet the borough's housing targets.
CSDR0002	Council's inability to meet demand for school places
CSD0016	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.
LPGCOM0003	Failure to effectively manage the reputation of the Council.
RSB0019	Maintaining financial viability /balance in 2016/17 to 2017/18.

No.	Risk
PPM0016	Failure of the Council's supply chain.
LPGSE0001	Failure to achieve community cohesion, Radicalisation of young people and gangs.
DR0029	Council is unable to identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019.
LPGLS0001	Non-compliance with corporate governance procedures.
CLSCEI0008	There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response.

# The Role of Internal Audit

The role of Internal Audit is to provide an independent ‘assurance’ to the organisation that its systems of internal control are sound and adequate, and are being complied with by staff and management.

Internal Audit is a review function, which independently reviews and reports upon the organisation’s internal control, governance and risk management arrangements. It critically evaluates the entire internal control framework and where necessary, makes recommendations for improvement and the introduction of best practice.

**The public sector internal audit standards defines internal audit 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.”***

The findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion in the Statement of Internal Control within the Annual Governance Statement.

# London Borough of Tower Hamlets 2015/16 Revised Internal Audit Plan

	<b>Audit Days</b>	<b>Pages</b>
Corporate systems and Council-wide reviews	287	8-10
Director of Law, Probity and Governance	35	11
Adults Services	80	12-13
Children's Services	208	14-15
Communities, Localities & Culture	190	16-18
Development & Renewal	182	19-21
Resources & core financial systems	249	22-25
Tower Hamlets Homes	115	26-27
Information technology audits	100	28-30
Follow up, management and reactive fraud provision	184	30
<b>Total Provision</b>	<b>1,630</b>	-

## Internal Audit Plan 2015-16

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
<b>Corporate Audits</b>				
Management and Control of Sickness	This audit will examine controls in place for an effective management and monitoring of sickness absences across the Council.	20	Audit Need Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Establishment Control	We will review systems and processes in place to provide assurance around the effective management of the Council's establishment levels.	15	Audit Need Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Transparency Code – Compliance	This audit will test compliance with various aspects of the Transparency Code to ensure that the Council has a sound system in place for collecting, quality checking and publishing the necessary information.	12	Corporate Risk Ref. LPGLS0001  Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management and Control of Taxis/Cabs	This audit will provide assurance over controls in place for controlling and monitoring of the use of taxis and minicabs by staff and members.	10	Audit Need Analysis Corporate Risk Ref. LPGLS0001	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council



	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Use of Purchase Cards – Compliance Testing	This will be compliance testing of how purchase cards are used, controlled and monitored across the Council to provide assurance that the Council's procedures on Purchase cards are followed and complied with.	30	Audit Needs Analysis  Corporate Risk Ref. PPM0016	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Procurement Procedures – Compliance audit	This will be a detailed testing of how Directorate staff comply with the Council's Procurement procedures to ensure that goods and services are procured, ordered and paid in accordance with the Council's approved procedures.	30	Audit Needs Analysis  Corporate Risk Ref. PPM0016	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Control and Monitoring of Best Value Action Plan	We will provide assurance that the progress of Best Value Action Plan for securing the Council's compliance with its best value duty is controlled and monitored.	25	Audit Needs Analysis and Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Regularity Audits of Grant Funded Third Sector organisations	We will carry out probity audits to a sample grant funded organisations to provide assurance that the grant funding is properly used in accordance with the grant conditions and that value for money is secured in the use of public money to achieve the objectives and priorities of the Council.	100	Audit Needs Analysis and Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Control, Monitoring and Reporting of Executive Decisions	This audit will examine the Council's procedures for recording, monitoring and reporting of Executive decisions taken by officers.	15	Management request.  Corporate Risk Ref. LPGLS0001	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Election Court Enquiries	To carry out due diligence audits on various issues identified by the Commissioners as a result of the Election Court judgement.	30	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
<b>Total</b>		<b>287</b>		

<b>Law, Probity and Governance</b>	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Contract Signing and Sealing	To examine procedures for finalising, signing and sealing of legal contracts.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Registrar's Office	We will examine the systems and controls for income generation initiatives to provide assurance that the new business model is delivered effectively.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Data Quality	This audit will examine a sample of high risk corporate performance indicators identified by the Performance Management team to provide assurance over the accuracy of the indicator.	10	Management request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
<b>Total</b>		<b>35</b>		

<b>Adults Services</b>	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Resource Allocation for Individual Budgets for Adults Social Care	We will review the systems and controls for allocating and approving resources for Individual Budgets to ensure that care plans for individual service users are costed and budgeted correctly and accurately.	10	Audit Needs Analysis  Corporate Risk Re ESW0001.	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People
Recovery of Unspent Funds from Individual Budgets for Adults Social Care	We will test the procedures for identifying, monitoring and recovering unspent individual budgets and funds that have been used for activities outside the support plan.	10	Audit Needs Analysis	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People. Focus on Early Intervention
Financial Safeguarding	We will undertake sample testing of the effectiveness with which financial safeguarding of vulnerable adults in supported and other accommodation is managed, controlled and monitored.	20	Audit Needs Analysis	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People. Focus on Early Intervention

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Quality of Care Audits	Review and testing of procedures in place for ensuring that the quality of care received by vulnerable adults from their care providers is to the expected standard of care.	15	Audit Needs Analysis  Corporate Risk Ref. ESW0001	<b>A Safe and Supportive Community</b> Empower Older and Vulnerable People. Focus on Early Intervention
Better Care Fund – Planning and Governance	We will review the planning and governance arrangements for delivering an effective system for integrating health and social care services to local people to receive better care.	10	Audit Needs Analysis  Corporate Risk Ref. ESW0001	<b>A Safe and Supportive Community</b> Focus on Early Intervention
Management of the Action Plans resulting from Serious Case Reviews	We will review the robustness of systems in place for implementing and embedding lessons learnt from Serious review Cases.	7	Audit Needs Analysis  Corporate Risk Ref. ESW0001	<b>A Safe and Supportive Community</b> Focus on Early Intervention
Management and control of “No Recourse to Public Fund” cases	We will review the verification framework for controlling and managing cases falling within the terms of “No recourse to Public Funds”, but receiving services from the Council.	8	Management Request	<b>A Safe and Supportive Community</b> Focus on Early Intervention
<b>Total</b>		<b>80</b>		

<b>Children's Services</b>	<b>Broad Scope</b>	<b>Audit</b>		<b>Broad Scope</b>
Contract Management of School Expansions	We will select a sample of building works in progress and test the effectiveness of contract management and monitoring to ensure that building works are delivered on time and to the agreed budget.	10	Audit Needs Analysis Corporate Risk Ref. ESWRS0001	<b>A Prosperous Community</b> Support lifelong learning opportunities for all.
Management of Missing Children's Register	We will review procedures for identifying, recording and monitoring cases of children missing from schools and other establishments.	10	Audit Needs Analysis Corporate Risk Ref. ESW0001	<b>A Safe and Supportive Community</b> Focus on Early Intervention
Management and control of "No recourse to Public Fund" cases	We will review the verification framework for controlling and managing cases falling within the terms of "No recourse to Public Funds", but receiving services from the Council.	8	Management Request	<b>A Safe and Supportive Community</b> Focus on Early Intervention
Management of the Action Plans resulting from Serious Case Reviews.	We will review the robustness of systems in place for implementing and embedding lessons learnt from Serious review Cases.	10	Audit Needs Analysis  Corporate Risk Ref. ESW0001	<b>A Safe and Supportive Community</b> Focus on Early Intervention
Schools audits	The school probity audits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; ICT security and other key areas of business within schools.	135	Annual Programme	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Ben Jonson School Investigation	To carry out the investigation and liaise with the police to assist in their part of the investigation.	20	Audit Needs	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Troubled Families Grant Verification	To check and verify the correctness and validity of the Troubled Families Grant before submission of the grant claim for payment.	15	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
<b>Total</b>		<b>208</b>		

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
<b>Communities, Locality and Culture</b>				
Control and Monitoring of Education and Development of Staff	This will be an audit of procedures in place for approving, controlling and monitoring of education and development of staff within the Directorate and its services.	10	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Flare – Data Quality	We will undertake testing of the Flare system operated by the Health and Housing Team to provide assurance that cases are managed and dealt with efficiently and effectively.	10	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Licence Applications	How applications for various licences are managed, including effectiveness of publicity and consultation before granting the licence.	15	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Trading Standards	We will review the systems and procedures for case management, ensuring that the Council's residents and consumers benefit from the programme of work undertaken by the Trading Standards Service.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council



	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Park and Phone Cashless Parking Income	This audit will review systems and procedures for controlling and monitoring the contract for Park and Phone service to ensure that all income due to the council is collected and accounted for efficiently and service provided is compliant with the contract.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Tendering for the new Waste Contracts	We will review and provide advice on the tendering arrangements for the procurement of the new Waste contract.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Highways Contract	This audit will test the effectiveness of controls over the ordering, inspecting and paying for planned and responsive Highways Maintenance works undertaken as part of the Measured Term Contract.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Community Language Service	We will examine systems for governance, recruitment, quality control of teaching and paying for staff to ensure that Council procedures and standards are complied with.	15	Management Request  Corporate Risk ref. LPGSE0001	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Youth Centres – Probity Audits	This will be probity audit on Youth Centres to provide assurance that the centres are operating within the Council's rules and procedures, and that the service objectives and priorities are achieved economically, efficiently and effectively.	30	Audit Needs Analysis and Management Request Corporate Risk ref. LPGSE0001	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Poplar Mortuary	To examine systems and controls for various aspects of the Mortuary management.	15	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Markets – Management of Vouchers for Traders	To examine systems and controls on how vouchers are produced, handled and managed in allocation of pitches to the traders.	15	Management request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Youth Service Review	To carry out a service review to assist the Service Head in achieving the objectives and priorities of the service.	25	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
<b>Total</b>		<b>190</b>		

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
<b>Development and Renewal</b>				
Asset Management	This will be a review of systems and controls for management of Council's assets to achieve the key priorities and objectives.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Temporary Accommodation	We will provide assurance over the systems and procedures for placing and paying for homeless families in temporary accommodation including B&B establishments to ensure that the government regulations are complied with and that Council's objectives are achieved.	20	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Monitoring of Faith Buildings Grants	We will review the systems for monitoring the grants for the Faith Buildings programme to ensure that the funding secures value for money.	15	Audit Needs Analysis and Management Request.	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management and Monitoring of Emergency Funds	We will review the systems for allocating and monitoring the grants awarded from the Emergency Fund to ensure that the funding is released to organisations meeting the agreed criteria and that it secures the principles of sound probity and value for money.	10	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Annual Evaluation of Grants Programme	This audit will provide assurance that as required by the Council's procedures the various grant programmes and initiatives are evaluated on an annual basis to ensure that they have achieved their objectives effectively and that lessons learnt are cascaded to the next round of the programme.	10	Audit Needs Analysis and Management Request.	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Mainstream Grants Programme– Allocation and Assessment	This work will shadow the new round of the grants programme to provide assurance that grant application, eligibility, assessment and allocation systems achieve best value principles and achieve Council objectives.	20	Audit Needs Analysis and Management Request.	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Repairs and Maintenance of Administrative Buildings	We will review systems for identifying, ordering, inspecting, paying and monitoring the reactive and planned repairs and maintenance works to Administrative Buildings of the Council.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Contract Audit	We will review the effectiveness of systems and controls for managing and monitoring various capital projects delivered by the Capital Delivery group.	30	Audit Needs Analysis and Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
London Mayor and LBTH Community Infrastructure Levy (CIL)	We will test the effectiveness of the systems for collecting and paying for the London Mayor's Community Infrastructure Levy. We will use the results of these tests to evaluate the systems proposed for the LBTH CIL.	15	Audit Needs Analysis and Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Land Acquisitions and transactions	We will review the governance and controls around the Council's land acquisitions programme and land related transactions with developers and other stakeholders to ensure that these are within the Council's powers.	12	Audit Needs	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Lettings arrangements	This audit will examine systems, processes and controls for the management of lettings.	20		
<b>Total</b>		<b>182</b>		

<b>Resources</b>	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Management of VAT	We will review systems and controls for VAT management to ensure that VAT regulations are complied with.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Medium Term Financial Plan	We will test the system for compiling and updating the Council's Medium Term Financial Plan to ensure that the Council's medium term financial planning is sound, secure and resilient.	10	Audit Needs Analysis  Corporate Risk Ref. RSB0019	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management of Efficiency Programme	Review of systems and controls for managing and monitoring the Council's savings programme.	20	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Payroll Account Reconciliation	We will test the soundness of the procedures for payroll account reconciliation to provide assurance that payroll transactions are reconciled with the Council's accounting system.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
One Stop Shops – Regularity Audit	We will undertake planned visits to One Stop Shops to provide assurance that Council's rules and regulations e.g, data security and protection control etc. are complied with in carrying out various front line customer service functions.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Processing of Suppliers Credit Notes	We will test the soundness of controls over the timely and accurate processing of Credit Notes received from the Council's suppliers.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management of Insurance Claims	We will provide assurance over the adequacy of systems and procedures for managing various insurance claims received by the Council from residents, tenants, staff and other parties to whom the Council has duty of care.	10	Audit Needs Analysis and Management Request.	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Bailiff Contract	We will test the effectiveness with which the Bailiff contract is controlled and monitored to ensure that the key deliverables in the contract are monitored and objectives are achieved.	10	Audit Needs Analysis.	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Treasury Management	Annual Review of key financial system	10	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
HR/payroll	Annual Review of key financial system	15	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
General Ledger	Annual Review of key financial system	10	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Budgetary control	Annual Review of key financial system	10	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Creditors	Annual Review of key financial system	15	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Debtors	Annual Review of key financial system	15	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
NNDR	Annual Review of key financial system	10	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Council Tax	Annual Review of key financial system	15	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Capital Programme and Accounting	Annual Review of key financial system	8	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Control and Monitoring of cash income C&D	Annual Review of key financial system	10	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Pensions	Annual Review of key financial system	8	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Housing and Council Tax Benefit	Annual Review of key financial system	15	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council



	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Housing Rents	Annual Review of key financial system	8	Part of Managed Audit approach	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
<b>Total</b>		<b>249</b>		

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
<b>Tower Hamlets Homes</b>				
Major Works	We will provide assurance over the systems and controls in place for the correct capturing and identification of major works, undertaking the necessary consultations with Leaseholders, billing, collection, recovery and other key processes.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Unauthorised Occupancy	We will review the effectiveness with which unauthorised occupancy is controlled and managed.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Corporate Health and Safety	We will review the various aspects of Health and Safety requirements falling within the remit of the company to provide assurance that the required H&S standards and regulations are complied with and monitored.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Specialist Repairs Contracts	This audit will review the controls for managing and monitoring the specialist repairs contract for repairs, maintenance and servicing gas installations and equipment.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Declaration of Staff Interests	This review will examine systems and controls for managing and monitoring declaration interests by THH staff.	7	Management Requests	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

<b>Tower Hamlets Homes</b>	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.	8	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management of SLAs	We will review the systems and controls for effective management of various SLAs the company has entered with LBTH.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Bancroft TMO	This will be a regularity audit of the TMO to provide assurance that the TMO is managed and controlled within the contractual framework and that functions carried out by the TMO are in accordance with Management Agreement.	10	Management Request	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Follow Up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Contract Audits	We will review the effectiveness of systems and controls for managing and monitoring various building and maintenance works planned and delivered by the company under the Delegated powers from LBTH.	15	Audit Needs Analysis  Corporate Risk Ref. DRA0016	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
<b>Total</b>		<b>115</b>		

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
<b>Information Technology</b>				
Problem Management	This audit will give assurance over the system of control over processes to identify service issues and the arrangements to mitigate risk of repeat issues. The audit will take account of root cause analysis, evaluation and steps taken to address problem.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Backups and Recovery	The purpose of this audit is to provide assurance that a back and recovery plan is in place to enable the Council to recover data and computer operations from loss of data.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
ICT Governance	This audit will seek to understand how the ICT strategy has been formulated linked to the Council's strategic plan and agreed (acknowledged that the strategy is draft and being finalised). The audit will also seek to understand how the enterprise architecture framework has been set up and whether this is in line with good practice and controls are in place to ensure the architecture aligns with business and IT strategy and delivering value for money. The audit will review governance controls and reporting arrangements to ensure ICT is delivering in line with business expectations, including how customer satisfaction is assessed.	20	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Project Management	This audit will examine the arrangements in place for developing and delivering the Council's strategic priorities from change management projects including the methodology for, planning, processing (Council and Agilisys), delivery and Deliverables, and effective management of progress and budgets etc. A sample of projects will be reviewed.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
ITIL Security Management – ISO 27001	The audit will examine the arrangements for establishing, implementing, operating, monitoring, reviewing, maintaining and improving a documented information management system. The audit will also examine the IT partner's arrangements for managing its ITIL standards.	15	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Web Management and Security	The purpose of this audit is to ensure management controls are in place to ensure the Council's internet and e-mail policy is complied, particularly around arrangements to prevent access to inappropriate sites and for regular reporting of web usage.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Patch Management – OS (hardware) and software	This audit will review the arrangements in place for Patch management of hardware and software to protect the Council from IT threat.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Corporate Priorities</b>
Threats and vulnerability management	Controls in this area are important to safeguard the Council from cyber risks; in particular, internet based attacks. This audit will review arrangements in place to protect the Council from such threats.	10	Audit Needs Analysis	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
<b>Other</b>		<b>100</b>		
Follow up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	100		<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management Requests	Contingency set aside to service Management requests during the year.	9		<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Reactive Fraud	Earmarked resource to support the investigation of cases of potential fraud, irregularities, waste of public money and whistle blow inquiries directed to the team.	25	Annual	<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
Management Time	Provision for management time to direct, control and monitor the work of the team.	50		<b>One Tower Hamlets</b> Working efficiently and effectively as One Council
<b>Grand Plan Total</b>		<b>1,630</b>		

## Governance-based Audit Assessment Methodology

### Assessment Categories

The Risk Assessment model takes account four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the proposed four assessment categories and what each is intended to measure.

Assessment Category		Measure
A	Corporate Importance – Objectives/Priorities	Corporate materiality
B	Corporate Sensitivity – Impact	Reputational materiality
C	Inherent Risk	Inherent vulnerability
D	Control Risk	Control effectiveness

The full definition for each category and the scoring criteria are described below.

### Assessment Process

Assessment was based on professional judgement after careful consideration of the key risks to the authority with the Executive Directors and other key officers, a review of current and previous audit plans and strategic issues facing the authority. The following steps were followed in performing the risk assessment:

Step	Action
1	Select the System and Corporate Controls to be risk assessed, to ensure a clear and unambiguous understanding of the area under review. This is normally called the Auditable Area
2	Select the most appropriate assessment criterion and therefore the score in each assessment category
3	Record the scores.
4	Compute the risk index by reference to the following section

### Calculation of the Audit Risk Index

Internal Audit risk is the product of risk and materiality. In valuing materiality it is appropriate to add the constituent assessments of Corporate Importance and Corporate Sensitivity to generate a Materiality Factor on a scale of 100.

Total Risk is the product of inherent and control risk. For the purposes of simplicity in this model Inherent Risk is assessed on a scale of 5-10 and Control Risk on a scale of 2-10. The minimum Risk Factor is produced by multiplying these components is therefore 10% (2 x 5).

The Audit Risk Index for each auditable area is, therefore, the Materiality Factor multiplied by the Risk Factor.

### Results of the Audit Risk Assessment

The structured list of auditable areas with illustrative assessment scores is recorded and the summarised scores used to give the Risk Factor and Materiality Factor and the resultant Audit Risk Index.

The list of auditable areas is then ranked by reference to the Audit Risk Index and grouped as high, medium or low priority. The top third are considered to be high priority, the next medium priority, and the bottom third low priority.



## Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.					
Score	Risk to Department, Corporate and/or Service Objectives		Operational Risk Exposure		Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	or	Minor inconvenience	or	Under 2% of total operating income or net assets.
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	or	Difficult to recover	or	Between 2% and 10% of operating income or net assets.
30	Unable to achieve service objectives without substantial additional costs or time delays or adverse effect on achievement of national targets / performance indicators.	or	Permanent loss of data	or	Between 10% and 30% of operating income or net assets.
40	Unable to achieve service objectives resulting in significant visible impact on service provision such as closure of facilities.	or	Unable to restore system	or	Between 30% and 50% of operating income or net assets.
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	or	Organisation unable to function	or	Over 50% of total operating income or net assets

Internal Audit Risk Assessment Matrices

B Corporate Sensitivity This aspect takes into account the sensitivity / confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output. It also assesses any legal and regulatory compliance requirements. The measure should also reflect any management concerns and sensitivities.

Score	Risk to Public Image		Risk of Adverse Publicity		Risk to Accountability		Risk of non-legal Compliance
10	Negligible consequences					or	No regulatory requirements
20	Some public embarrassment but no damage to reputation or standing in the community	or	Information would be of interest to local press			or	Minimal regulatory requirements and limited sensitivity to non-compliance
30	Some public embarrassment leading to limited damage	or	Information would be of interest to local MPs			or	Modest legal and regulatory requirements
40	Loss of credibility and public confidence in the service concerned	or	Incident of interest to National Press	O r	Incident potentially leading to the dismissal or resignation of the responsible functional manager	or	Extensive legal and regulatory requirements with sanctions for non-compliance
50	Highly damaging with immediate impact on public confidence	or	Incident of interest to the Audit Commission, government agencies	O r	Incident potentially leading to the resignation or dismissal of a Chief Officer	or	Possible court enforcement order for non-compliance

**Internal Audit Risk Assessment Matrices**

C Inherent Risk This aspect considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations and the pace of change will also affect the level of inherent risk. Similarly the relative complexity of the system will influence the inherent risk or error. The inherent vulnerability of a system, service or process cannot be altered, only mitigated by the quality of controls considered in section D.

Score	Inherent Risk – Vulnerability		Risk of Error due to System Complexity		Risk resulting from Pace of Change		Risk to Asset Security
5	Low vulnerability		Simple system with low risk of error	or	No changes planned	or	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk	or		or	Limited changes planned with reasonable timescale		
7	Medium vulnerability	or	Moderately complex system with medium risk of error	or	Moderate level of change over medium term		
8	Medium to high inherent risk	or		or	Significant level of change with restricted timescale		
10	Highly vulnerable	or	Complex system with high risk of error	or	Extensive changes planned with short timescale	or	Highly desirable assets exposed to high risk of fraud or loss

**Internal Audit Risk Assessment Matrices**

D Control Risk This aspect assesses the level of control risk based upon the results of past audits of the control environment under review. This aspect also takes into account of the operating history and condition of systems and processes and knowledge of management controls to minimise exposure to risk. CRSA and extensive Control Risk Workshops under the leadership of the Council’s Risk Manager could support evaluation.

Score	History of Risk Management Success		Management Risk and Control Environment		Condition of Risk Management Controls
2	No history of control weakness	or	There is effective risk management in place and adequate controls operated by risk-aware management	or	Effective controls and robust attitude to the management of all material risks. Embedded risk management culture
4	No history of significant weakness	or	Good management risk and control environment	or	Stable system with history of reliability and controls. Risk management issued considered regularly.
6	No high risk issues outstanding from the previous audit/investigation/best value/external review	or	No knowledge of management risk and control environment	or	Risk management and system controls not validated.
8	Some significant problems were identified and are known to be outstanding from the previous audit/review	or	Some significant concerns have been expressed by management (through Controls Risk Workshops)	or	Technical health of system of risk management and controls in doubt.
10	Major weaknesses in risk management and controls were identified and are known to be outstanding	or	Major concerns have been expressed by management (through Controls Risk workshops)	or	Obsolete system with history of problems and ineffective control. Little or no work undertaken on risk management.

## LONDON BOROUGH OF TOWER HAMLETS

### 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."

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 discharge 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 Chief Executive and the Chair of the AC 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.



# The Internal Audit Process

## **The Pre-Audit Stage**

Based on the audit timetable, which has previously been agreed, Internal Audit Team will give two weeks notice to the appropriate Corporate Director and Service Head (the Audit Owner) of an impending audit review and issue an Audit Brief. The Audit Brief will also detail how the audit relates to the agreed audit plan. The Audit Owner has an opportunity to comment on the Audit Brief and raise any areas of concern.

The Audit Owner will ensure that Internal Audit is provided with a written agreement or otherwise to the Audit Brief within two weeks following the receipt of the draft by the Audit Owner.

## **During the Audit**

At this stage Internal Audit will keep the Auditee informed of key findings found during the course of the audit. Where an officer has not been able to provide information requested, Internal Audit will refer matters to the Audit Owner.

The Auditee will ensure that the auditor is provided with all the resources and facilities, including information requested, to facilitate the smooth progress of the audit, including responding to any auditor enquiries promptly.

## **Post Audit Stage**

Upon conclusion of the audit field work Internal Audit will present a Draft Audit Report to be discussed at the audit exit meeting with the Audit Owner. At the audit exit meeting, the findings will be discussed, along with any recommendations for improvement.

Following the audit exit meeting, LB Tower Hamlets Internal Audit will issue a formal Draft of the Audit Report which includes a Management Action Plan of Recommendations to the Audit Owner within three weeks following the completion of the audit exit meeting.

The Audit Owner has three weeks to respond to the Draft Audit Report by completing the Management Action Plan of Recommendations, including listing responsible officers and proposed completion dates. Upon receipt of the agreed Action Plan, a Final Report will be issued to all parties concerned.

The Audit Owner will then enter the agreed management actions and target dates into the Audit Tracker System, and monitor the progress in implementing the recommendations.

The LB Tower Hamlets Internal Audit will present a Summary of Findings from recently issued Final Audit Reports to the Audit Committee. The Audit Owner will have the opportunity to add a response to the Summary of Findings before this report is presented to the Audit Committee.

# The Monitoring Process

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**Follow-up audits** will be conducted six months after the issue of the Final Report, and a follow up audit report will be issued showing the progress on implementing the agreed recommendations.

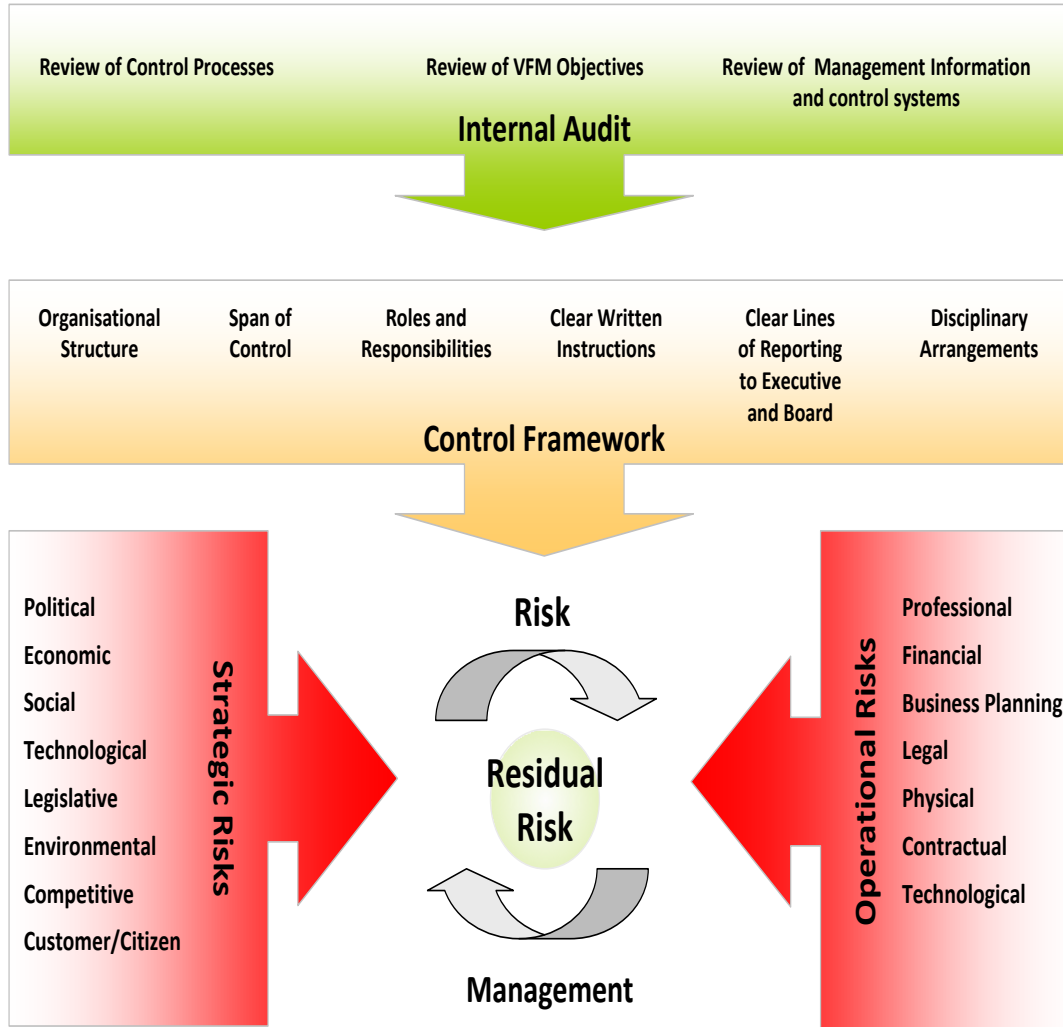
Internal Audit recommendations are classified as follows:

Category 1 – High Priority - 100% of recommendations to be implemented within six months

Category 2 – Medium Priority – 95% of recommendations to be implemented within six months

# Summary

## Appendix 6



**Internal Audit:** Will provide assurance that risk management processes and internal controls are operating effectively, ensure major business risks are being managed effectively, and that governance arrangements are operating effectively.

**Control Framework:** A matrix of control mechanisms will be developed to ensure that every member of staff is aware of their responsibility in managing risk, and a reporting framework will ensure that the Senior Management Team and the Board have a clear view of the effectiveness of the controls in place.

**Risk Management:** The Risk Register will be reviewed on a periodic basis to reassess the residual level of risk for the strategic risks identified in the first year of operation; new risks added as they become evident.

## Definitions

**Risk** “Any issue which could impact on an organisation’s ability to meet its objectives”

**Risk Management** Risk management is a planned and systematic approach to the identification, analysis and control of risks that challenge and threaten the achievement of the objectives of the organisation. Risk management makes it possible to determine whether the risks pose a large enough threat and the innovations a big enough opportunity, to implement mitigation techniques.

**Objective** Is to implement an effective risk management framework that ensures that risks are identified and managed to an acceptable level and that opportunities are fully exploited, whilst minimising, financial loss, service disruption, bad publicity, reputation loss, claims for compensation and threats to the public and staff.

**Our Policy:** We believe that by managing risks effectively, we at LB of Tower Hamlets will be in a stronger position to deliver our strategic and operational objectives. By taking advantage of opportunities and managing them well, we will be in a better position to improve services and give our stakeholders better value for money.



## **Objectives of Risk Management:**

- Ensure that systems are in place to identify, track and report upon existing and emerging risks that could damage the interest of our business and our stakeholders.
- Ensure that risk management is embedded throughout the organisation, creating an environment where all staff assumes responsibility for managing risk.

## **These Objectives will be Achieved by:**

- Establishing clear roles, responsibilities and reporting lines within the organisation for risk management;
- Providing opportunities for shared learning on risk management across the organisation;
- Developing and maintaining systems for identifying and evaluating all significant risks;
- Developing and maintaining a framework for allocating resources to identified priority risk areas;
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training;
- Incorporating risk management considerations into Best Value and service reviews and business planning;
- Put in place review and monitoring arrangements to assess the effectiveness of our mechanisms and arrangements.

**To Emphasise the Organisation’s Working Commitment to Risk Management, the Risk Management Mission Statement is as Follows:**

“London Borough of Tower Hamlets recognises that it has a responsibility to manage opportunities and risks in a structured manner in order that LB Tower Hamlets will better achieve its corporate objectives and enhance the value of services it provides to the Community”.

The Audit Committee, Corporate Management Team (CMT) and the Directorate Management Team (DMT) will have overall responsibility for risk management and will be consulted and kept informed as to the progress of the implementation of the strategy on at least an annual basis.

## Roles and Responsibilities

<p><b>Audit Committee</b></p>	<p>The Committee's primary role is to review and conclude upon the adequacy and effectiveness of the Council's overall internal control system. In performing this role the Committee's work predominantly focuses upon the framework of risks, controls and related assurances that underpin the delivery of the Council's objectives.</p>
<p><b>Corporate Management Team</b></p>	<p>One of the roles of the CMT is to work on a cross-directorate basis to ensure that the Council has an effective risk management arrangement in place to achieve its objectives and to consider quarterly reports on the key strategic risks faced by the Council and how these risks are being managed and mitigated.</p>
<p><b>Corporate Director of Resources</b></p>	<p>As S.151 officer, the Corporate Director of Resources is responsible for the proper administration of the financial affairs of the Council. The requirement to have an Internal Audit function derives from S.151 of the Local Government Act 1972. As such the Corporate Director of Resources supports the Council and its departments in ensuring that the arrangements made for financial management, risk management and internal control systems are sound and secure.</p>
<p><b>Corporate Directors</b></p>	<p>The Corporate Directors have the operational responsibility for ensuring that there are sound procedures in place at Directorate level for effective financial management, risk management and internal control systems.</p>



## **Risk Management Action Plans**

One of the key risk management objectives is the effective management of the organisation's risks, both strategic and operational. This has been achieved by the sessions to identify and profile the organisation's significant strategic risks.

Once this task has been compiled, SMT and the Audit Committee will be asked to comment on these risks and the risk assessment process. In relation to the operational risks, each Director has facilitated and co-ordinated a similar risk assessment exercise in order that the significant operational risks have been accurately identified profiled and managed. The aim of such a process is that it will eventually form part of each Division's annual business planning process.

Coming out of this process, will be risk management action plans relating to the most serious significant risks, i.e. those where the existing levels of internal control are seen as inadequate. The above assessments (both strategic and operational) will be a yearly process with tracking and monitoring of risks on an annual basis.

The Director of Resources will receive copies of each Division's operational risk management action plans in order that any cross-departmental risks can be picked up and managed accordingly. The Director of Resources will also monitor the risk improvement strategy to ensure that progress is made against the key significant risks.


Similarly, the same risk assessment programme can be adopted when services are going through the Best Value programme. A risk management pack can be included in the Best Value documentation. It is generally accepted that each Directorate must be seen to be managing its risks in order to demonstrate Best Value.

## Classification of Risk

Strategic Risks		Operational Risks	
<b>Political</b> Wrong strategic priorities Not meeting Government agendas Too slow to innovate/modernise Decisions based on incomplete information Unfulfilled promises to Council Failure to recruit a suitable CEO	<b>Economic</b> General economic problems Regional economic problems Treasury risk Missed business or service opportunities	<b>Professional</b> Failure to recruit/retain staff Lack of training Over-reliance on key officers Inefficient management processes Inability to implement change Lack of employee motivation Bad management of partners	<b>Financial and business planning</b> Failure of major project(s) Failure to prioritise, allocate appropriate budgets and monitor Failure to implement effective partnering contracts for property and estate services
<b>Social</b> Failing to meet the needs of disadvantaged Impact of demographic changes Employment challenges Lack of development of staff Failures in partnership working	<b>Technological</b> Obsolescence of technology Security policies Breach of confidentiality Failure in communications	<b>Legal</b> Not meeting statutory duties Breach of confidentiality/DPA Failure to comply with European Directives on procurement of works, supplies, and services Failure to implement new legislation	<b>Physical</b> Attacks on personnel Loss of tangible assets Non compliance with health & safety law Loss of physical assets Local and national emergencies
<b>Legislative</b> Judicial review Human Rights Act breaches Intervention by regulatory bodies Inadequate response to new legislation Poor response to Audit Commission	<b>Environmental</b> Impact of sustainability policies Noise, contamination and pollution	<b>Contractual</b> Over-reliance on key suppliers/contractors Failure of outsource provider Quality issues Non-compliance with procurement policies	<b>Technological</b> Failure of big technology project IT system crashes affect services Breaches of security of network and data Bad management of intranets and websites

<b>Competitive</b> Failure to show best value Failure of bids for government funds	<b>Customer/Citizen</b> Lack of appropriate consultation Bad public and media relations		
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Non-Executive Report of the:  <b>Audit Committee</b>  8th December 2015	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke - Corporate Director - Resources	<b>Classification:</b> Unrestricted
<b>Annual Schools Report</b>	

<b>Originating Officer(s)</b>	Minesh Jani and Daniel Hellary (Mazars)
<b>Wards affected</b>	All wards

## 1. Summary

- 1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2014/15.
- 1.2. The purpose of the report is to provide an overview of audit findings and facilitate a thematic assessment of the matters raised by Audit. It is envisaged that this assessment will be used by the Local Authority to enhance the governance framework around schools.
- 1.3. During the financial year, 16 audit visits were carried out at 15 schools (one school was audited twice). Each audit visit involved compliance testing of system and procedures in 12 areas of control in accordance with a pre-agreed audit test programme.

## 2. Recommendation

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the matters raised by Audit in each of the 12 areas examined.

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

- 3.1 There are no financial implications as a result of recommendations within this report.
- 3.2 However, the lack of financial control identified in some schools through the annual audit process could have significant adverse implications for those school budgets should they not be addressed. Furthermore, there is also the risk that value for money is not being secured.

### **4. Legal Comments**

- 4.1. The Audit Commission's Guidance, 'Keeping Your Balance' sets out that the accounts of schools with delegated budgets are subject to regular internal audit and are available for inspection as necessary by the Council's external auditor. Internal auditors review the management of the school's finances on behalf of the Council. Local authority external auditors are appointed by the Audit Commission to assess the legality and regularity of financial affairs and to ensure that the Council has made proper arrangements to secure value for money.
- 4.2. The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices by applying the Public Sector Internal Audit Standard which came into force on 1 April 2013. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

### **5. One Tower Hamlets**

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

### **6. Best Value Implications**

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

### **7. Risk Management Implications**

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

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

- 8.1. There are no specific SAGE implications.

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

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

**CONFIDENTIAL**

**ANNUAL REPORT  
TO  
CORPORATE DIRECTOR – CHILDREN’S SERVICES  
ON  
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED  
DURING 2014/15**



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## **REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2014/15**

### **1. Introduction**

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2014/15.
- 1.2. The objective of this report is to provide assurance to the Corporate Director as to whether the Head Teachers and Governing Bodies have implemented adequate and effective internal controls over the administration and financial monitoring of the Borough's schools.
- 1.3. During the 2014/15 financial year, Internal Audit carried out probity audit visits to six primary schools, seven secondary schools (one visited twice), one nursery school and one special school (it should be noted five reports are still at draft stage at the time of writing this report). An audit programme which incorporates the guidance issued by the Audit Commission in 'Keeping your Balance' is followed in undertaking schools audits. A probity audit based methodology is used which involves assessing the school against the identified controls documented within the audit test programme devised for the London Borough of Tower Hamlets. The audit process involves audit testing, evaluating and reporting upon key financial and management controls.
- 1.4. The 12 control areas examined during the audit are:-
  - Operation of Governance Processes;
  - Financial Planning and Budgetary Control;
  - Control and Monitoring of Schools Bank Account;
  - Procurement, including Large Single Purchases, Tendering and Value for Money;
  - Accounting of Income and Expenditure;
  - Charging Policy, Income Collection and Banking;
  - Personnel and Payroll Management;
  - School Meals;
  - Voluntary Fund and School Journey;
  - Asset Controls and Security of Assets;
  - Security of the IT Infrastructure, Disaster Recovery and Data Protection; and
  - Risk Management and Insurance.
- 1.5. As a result of the 16 probity audits undertaken in 2014/15, nine schools were assigned a Substantial Assurance opinion, five schools were assigned a Limited Assurance opinion and two schools were assigned a Nil Assurance opinion (including five audits at the draft report stage).

1.6 Appendix A provides a breakdown of assurance opinions covering the period 2010/11 to 2014/15 for comparison purposes, whilst appendix B provides an analysis of key issues identified for the same period. Full details of the issues are included in the respective areas of this report detailed below.

## **2. Most Common Findings**

- 2.1. All schools visited during the year had Governing Bodies collectively responsible for the overall direction and strategic management. However, the effectiveness of school governance could be improved by ensuring that quorum requirements are met for the Governing Body and sub-committee meetings. The most common weakness identified was that policies and procedures were not subject to periodic review by the Governing Body, and evidenced as such in the relevant meeting minutes. This was raised in the 2013/14 report.
- 2.2. Governing Body and Committee meeting minutes were not always checked and signed by the respective Chair to ensure they provide an accurate account of decisions made. This was raised in the 2012/13 CMT report and 2013/14 CMT report.
- 2.3. Schools have not maintained an up to date register of business interests for all Governors on the Governing Body and/or all staff with financial management responsibilities. This was raised in the 2012/13 CMT report and CMT 2013/14 report.
- 2.4. Terms of reference drawn up for all sub-committees have not been reviewed annually and approved by the Governing Body. This was raised in the 2012/13 CMT report and 2013/14 CMT report.
- 2.5. Budget monitoring reports had not been evidenced as reviewed by the Head Teacher. This was raised in the 2013/14 CMT report.
- 2.6. In some instances approval of the School Development Plan was not evidenced adequately in the Governing Body meeting minutes and financial commitments were not always outlined in the plan.
- 2.7. In a couple of instances schools did not retain an up-to-date bank mandate for its bank accounts that reflected the school's Scheme of Delegation. This was raised in the 2013/14 CMT report.
- 2.8. A common weakness was that official orders were not raised by I schools prior to purchases and where orders were raised, they were not appropriately authorised by the delegated officer. There was a lack of documentary evidence that the goods and services received are checked for accuracy before payment and that delivery documentation was appropriately annotated. This was raised in the 2012/13 CMT report and 2013/14 CMT report.

- 2.9. In several cases, the appropriate number of quotes were not always obtained as part of the procurement process and retained on file. This was raised in the 2013/14 CMT report. An adequate audit trail was not maintained for final supplier selection and in some cases, Governing Body approval was not obtained for higher value purchases.
- 2.10. The schools' financial procedures did not clearly stipulate the authorisation limits for delegated responsibility in most cases.
- 2.11. In a number of instances, petty cash vouchers were not authorised with sufficient segregation of duties and the vouchers were not numbered for reference. As well as this, the amount of cash held on site did not always match with the records in the school's accounting systems, reflecting inconsistent reconciliation.
- 2.12. Lettings agreements between the School and the persons/groups hiring the premises were not always signed and retained.
- 2.13. Payroll reconciliations were not checked and signed off by an independent senior member of staff to evidence segregation of duties. This was raised in the 2012/13 CMT report and 2013/14 CMT report.
- 2.14. Adequate documentation within personnel files of starters and leavers was not always obtained and retained on site by some Schools.
- 2.15. Regular verification and liaison with the local authority to identify only those pupils who are entitled to free school meals are receiving them did not always occur. Where this check did occur, evidence supporting the pupils' entitlement was not always retained by the school. This was raised in the 2012/13 CMT report and CMT 2013/14 CMT report.
- 2.16. In a number of instances the costing of income and expenditure of school journeys was not fully documented, and approved by an independent officer. This was raised in the 2012/13 CMT report and 2013/14 CMT report.
- 2.17. Annual inventory checks were not performed consistently across all schools, and where performed, the results of these inventory checks were not always reported to the Governing Body. Portable and valuable assets were not always visibly and indelibly security marked by the school. Furthermore, equipment loan registers did not generally specify employees' liability/responsibility for equipment. This was raised in the 2013/14 CMT report.
- 2.18. The asset register was not always up to date with details of the assets held on premises. The equipment loan forms were signed by the respective staff, however were not adequately authorised in some cases.

- 2.19. In a number of instances the amount of cash held on premises by the school was in excess of the school's insurance limit. This was raised in the 2012/13 CMT report and 2013/14 CMT report.

### **3. Key Findings by Audit Area**

#### **3.1. Operation of Governance Processes**

- 3.1.1 All schools had in place key strategic documents, including Scheme of Delegation, Terms of Reference and Financial Procedures Manual. However, in a number of cases these were not up to date with evidence of regular review by the Governing Body. Inconsistencies in delegations were identified amongst the three documents.
- 3.1.2 The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been prepared. In many instances, there was no evidence of meeting minutes being approved by the appropriate Chair. In a few instances the meetings did not meet the quorum requirements consistently over a year.
- 3.1.3 Where the Governing Body has set up sub-committees, terms of reference had not been approved and reviewed annually in a number of instances.
- 3.1.4 In several instances, key policies and procedures had not been evidenced as reviewed on a periodic basis. Evidence of approval should be documented in the relevant meeting minutes.
- 3.1.5 In a number of schools, the Register of Business Interests was not up-to-date with missing declarations or incomplete declarations for Governors on the Governing Body and staff with financial management responsibilities. However, the opportunity to declare interests is a standing item on most agendas of the Governing Body meetings.
- 3.1.6 In a couple of instances, there were Governing Body vacancies which were not filled. Governing body vacancies should be filled with a plan and recruitment timetable

#### **3.2. Financial Planning, Budget Setting, Monitoring and Forecasting**

- 3.2.1 Schools have generally produced comprehensive School Development Plans which include three year targets. The plan is produced and reviewed each financial year to help ensure resource implications are considered during the budget setting process. Governors are regularly updated on the progress against targets within the plan. However, in some instances approval of the plan was not evidenced adequately in minutes of meetings, and financial commitments were not always clearly outlined in the plan.

3.2.2 For the majority of schools the Chair of Governors and the full Governing Body had approved the budget plans in a timely manner. Budget monitoring is usually undertaken either monthly or as a minimum on a quarterly basis. However, in most of the cases, budget monitoring reports had not been evidenced as reviewed by the Head Teacher.

3.2.3 In a large number of cases, official purchase orders were not raised prior to invoicing/purchasing and in some cases orders were not appropriately authorised by the delegated officer. Therefore it was unclear whether the availability of budget was checked prior to purchasing or that purchases were authorised by appropriate individuals in accordance with their delegated limits.

### **3.3. Control and Monitoring over School Bank Accounts**

3.3.1 Bank accounts were not always administered in accordance with the requirements of the approved bank account mandates as bank mandates have been found to be out of date in few cases. In most cases a copy of the bank mandate was retained by the school.

3.3.2 There were adequate controls over accounting for income and banking.

3.3.3 By large, most schools had adequate and effective controls in place to monitor their bank accounts. In some cases, however, it was identified that the bank signatory list was not available or approved by Chair of Governors.

3.3.4 In majority of the cases, bank reconciliations were complete and performed in a timely manner, and these reconciliations were mostly independently checked to confirm completeness and accuracy. However in some instances bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review. In a couple of instances there was no evidence of monthly reconciliations performed at all.

3.3.5 Most schools had banked income received at the school in a timely manner and as a result ensured excessive amounts of cash were not held on site. However, in some instances schools were found to be holding amounts of cash in excess of the maximum insured amount.

### **3.4. Procurement (including Large Single Purchases, Tendering & VFM)**

3.4.1. In several instances, the appropriate number of quotes were not always obtained as part of the procurement process and retained on file in line with the School's Financial Procedures. In a number of instances adequate audit trail was not maintained for final supplier selection. In

some cases, Governing Body approval was not obtained for higher value purchases.

- 3.4.2. In a couple of instances, the EU tendering process was not followed, in so far as the EU procurement thresholds were exceeded and the tender process was not followed by the schools.
- 3.4.3 There was a lack of documentary evidence in some instances that the goods received are checked for accuracy and that delivery documentation was appropriately annotated.
- 3.4.4 In some cases of Invoices sampled, it was not evidenced that the invoice had been certified for payment. Segregation of duties for procurement was generally evidenced.
- 3.4.5 In many instances, the schools' financial procedures did not clearly stipulate the authorisation limits for delegated responsibility.

### **3.5. *Accounting of Income and Expenditure***

- 3.5.1 In most cases, there were adequate controls in place to account for the income and expenditure.
- 3.5.2 There were several instances where weaknesses in the petty cash process were identified. These related to vouchers not being authorised with sufficient segregation of duties or petty cash vouchers did not have reference numbers attached. In some cases the total amount of cash held on site did not match with records in the schools' accounting systems. In a couple of instances there was no evidence of VAT reclaims for petty cash transactions being completed.
- 3.5.3 In several cases, there was no evidence of income and expenditure of school journeys being costed and approved by an independent officer and in some cases they were incomplete. In many cases, 'End of Journey Statements' income and expenditure reports were not produced and appropriately reviewed.

### **3.6. *Charging Policy and Income Collection and Banking***

- 3.6.1 Most schools had effective controls in place to ensure that income due was identified, collected, and properly accounted for.
- 3.6.2 Most schools had a documented Lettings Policy in place, where appropriate, which included the terms and conditions for hiring the premises. Agreements were not always signed between the school and persons / groups hiring the premises. In some cases, the Lettings Policy was not approved by the full Governing Body. Charges were documented in most cases.

3.6.3 In most cases income was regularly and fully banked and periodically reconciled to the cash-book within the school's financial accounting system.

3.6.4 Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income had been received, the date of receipt, the amount received and the date the income was banked. Records were not signed for by both parties involved in the transfer.

### **3.7. *Personnel and Payroll Management***

3.7.1 Evidence of pre-recruitment checks was not always obtained / retained, such as identity checks, references, right to work checks, medical checks, and qualifications checks. Letters of resignation / termination were not always held on file in respect of leavers.

3.7.2 Payroll reconciliations were undertaken in all schools. However, in many cases there was no evidence of a staff having performed an independent review of the reconciliation.

### **3.8. *School Meals***

3.8.1 In several cases, schools did not retain proof of entitlement for all appropriate pupils and in some cases regular reconciliations were not in place to ensure that their free school meals list was up to date.

3.8.2 Income due from pupils for school meals is recorded and accounted for and records identify arrears and credits.

### **3.9. *Voluntary Fund and School Journey***

3.9.1 The Governing Body in all schools visited approved the objectives of the Voluntary Fund account. In most instances the Voluntary Fund account had been independently audited within the last 12 months. In a few instances there was no evidence of presenting interim financial statements of the fund (income and expenditure) to the Governing Body/Finance Committee regularly.

3.9.2 Schools did not always maintain approved evidence of how school journeys were costed and certified summary accounts for each school journey were not produced.



### **3.10. Asset Controls and Security of Assets**

- 3.10.1 This area remains an area of weakness and represents one of the most consistent findings in audit reports. Inventory records/asset register are not always maintained up to date with new assets being added and disposed assets recorded in a timely manner. Assets were not security marked for easy identification and retrieval.
- 3.10.2 Inventory checks are not always performed to confirm the accuracy and completeness of inventory records and disposals, and the results of the inventory check are not always reported to the Governing Body.
- 3.10.3 An adequate equipment loan register was not maintained for a number of schools and signed loan agreements did not highlight the employee's liability/responsibility for equipment. The loan forms were not adequately authorised and did not stipulate the anticipated date of return.

### **3.11 Security of the IT Infrastructure, Disaster Recovery, Data Protection**

- 3.11.1 Schools had evidence of registration under the Data Protection Act. Anti-virus software had been installed on financial and administration systems with adequate computer back up procedures.
- 3.11.2 Most schools had adequate password settings in place with the need for alpha numeric characters and the need to change passwords on a periodic basis. In some instances password controls were inadequate in so far as passwords were not changed periodically due to system constraints.
- 3.11.3 In a number of instances it was identified that ICO certificate was not renewed and received from the Information Commissioner.

### **3.12. Risk Management and Insurance**

- 3.12.1 The Governing Body's approach to risk management in the development of the School Improvement Plan (where in place), School Journeys, and Health and Safety were considered appropriate. Schools generally have adequate arrangements for insurance in place. This includes the arrangements for the security of its data.
- 3.12.2 Regular risk management reviews were evidenced, within both the Senior Leadership Team (SLT) and Health & Safety meetings.

## **4 Conclusions**

- 4.1. Over half of the schools audited were above the minimum standard of financial control and management and were assigned a substantial assurance audit opinion. However, two schools audited were assigned with nil assurance, where controls were weak and there were significant non-compliance with basic controls leaving the system open to error or abuse (both the reports are at draft stage.) It is noted that improvements are required in all 12 areas of operation which were examined.

Non-Executive Report of the:  <b>Audit Committee</b>  8th December 2015	
<b>Report of:</b> Zena Cooke - Corporate Director Resources	<b>Classification:</b> [Unrestricted or Exempt]
<b>Quarter 2 Corporate Risk Register Update 2015/16</b>	

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

## 1. Summary

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

- a) An update of the corporate risks as at the end of November 2015
- b) A summary of changes made to the register during the second quarter 2015/16.

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

## 2. Recommendations

2.1 The Committee is asked to: -

- note the contents of this report;
- consider the corporate risks (Appendix 1) that the committee want to scrutinise; and
- request the risk owner(s) requiring further scrutiny to provide a detailed update on the treatment and mitigation of the risk including impact on the corporate objectives at its March meeting.

## 3. Background

3.1 Risk management is an integral part of good corporate governance. There are many definitions of corporate governance but the one used by CIPFA is “.....the procedures associated with the decision making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy expectations of accountability to those outside it”.

- 3.2 All organisations face risks in everything that they do but by the proper management of its risks, organisations can benefit by reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. Over the last few years, the use of risk management as a tool in the public sector has gained strength as the appreciation of how risk management can be used as a technique for delivering an efficient and effective service to all its stakeholders. This is demonstrated in guidance issued by CIPFA / SOLACE, “Delivering Good Governance in Local Government”, which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control.

The council has developed a formal Risk Management framework and processes which is supported by the Risk Management and Audit team. This is part of the council’s corporate governance process and contributes to its compliance with Financial Regulations and Procedures as well as the Accounts and Audit Regulations 2015. It is also a key part of the council’s Annual Governance Statement which is approved by the Audit Committee in June each year.

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

Risk Management is an essential tool in managing the business of the Council, and as such, effective Risk Management allows the executive the opportunity to identify risks that may prevent the Council from achieving its strategic aims and objectives. The methodical consideration of risks and the design of how the risk will be mitigated as a proactive management tool is recognised as part of good governance by the Corporate Management Team and the Mayor’s Advisory Board. The Council’s process for reviewing and reporting risks also provides evidence in meeting its legal obligations under the Accounts and Audit Regulations 2015.

Corporate risks are those concerned with ensuring overall success of Council’s strategic objectives and the vitality of the organisation. Materialisation of such risks may have financial consequences; significantly affect the reputation and performance of the Council as well as potential health and safety impacts for its staff, and others. Each risk included on the corporate risk register is assessed and scored and a number of actions identified, these are recorded on the Council’s Risk Management information system (JCAD).

Risks that feature on the corporate risk register have been identified by CMT and also include risks that have met the corporate risk criteria and escalated by each directorate. These risks are considered by the Risk Champions group who review them before they are reported to CMT and MAB in the quarterly reports.

Risks are assessed, using the Council’s risk assessment process, in terms of how likely a risk is to occur and what the consequences would be if it did. Based on that assessment risks are classified as follows:

- **Red (Severe)** indicates that the risk is very significant and requires immediate comprehensive management attention;
- **Amber (Significant)** indicates that the consequences of a risk materialising would be significant, but not disastrous. Some immediate action (but not as time critical) is required plus the development of a comprehensive action plan;
- **Yellow (Material)** indicates that the consequences of the risk are of concern although treating the risk will be through contingency planning;
- **Green (Low)** indicates the likelihood and impact of the risk relatively unimportant.

#### 4. Reasons for the Decisions

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

#### 5. Details of Report

5.1 The Audit Committee requires the Head of Audit and Risk Management to provide a quarterly 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.

5.2 Corporate risk register

The current risk register contains a total of 10 risks; which are rated as one red and nine amber (see para 3.2 above for the risk definitions). This is broadly comparable with the corporate risk profile reported for quarter 1, 2015/16 which reported 10 amber risks.

	Quarter 2 2014/15	Quarter 3 2014/15	Quarter 4 2014/15	Quarter 1 2015/16	<b>Quarter 2 2015/16</b>
<b>Red</b>	0 (-1)	0 (0)	1 (+1)	1 (0)	<b>1 (0)</b>
<b>Amber</b>	10 (-7)	9 (-1)	9 (0)	9 (0)	<b>9 (0)</b>
<b>Yellow</b>	0 (-2)	0 (0)	0 (0)	0 (0)	<b>0 (0)</b>
<b>Green</b>	0	0 (0)	0 (0)	0 (0)	<b>0 (0)</b>
<b>Total</b>	10	9	10	10	<b>10</b>
<b>Difference +/-</b>	-10	-1	+1	0	<b>0</b>

Table 1 Corporate risks by Quarter

There has been no change in risk score to the corporate risks identified in the Quarter 1 report.

The table below is a breakdown of the number of corporate risks by directorate for quarter 2, 2015/6.

Directorate	8	10	12	15	20	Grand Total
ASD	0	0	0	1	0	1
CLC	0	1	0	0	0	1
CSD	0	0	0	2	0	2
D&R	0	0	0	1	1	2
LPG	0	0	3	0	0	3
Resources	0	0	0	1	0	1
Grand Total	0	1	3	5	1	10

Table 2. The number of risks within each directorate by risk score.

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

### Risks aligned to Corporate Priorities

The table below shows the number of risks that are associated with a particular corporate priority. There are no risks identified against “A Prosperous Place to Live” and “A Healthy Community”.

Corporate priority	No of Q3 2014/15	No of Q1 2015/16	No of Q2 2015/16
One Tower Hamlets	6	6	6
A Safe and Supportive Community	1	1	2
A Prosperous Community	0	0	0
A Great Place to Live	2	2	2
A Healthy Community	0	1	0
<b>Total</b>	<b>9</b>	<b>10</b>	<b>10</b>

Table 3. The number of risks identified by Corporate priority

### Changes to the Q2 Corporate risk register

The following section identifies the changes and movement in the corporate risk register since the last quarter report.

## New risk

A new risk has been added as a corporate risk: -

**DR0029** – Council is unable to identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019.

## Corporate to Directorate Risk

**PPM0016** – Failure of the Council’s supply Chain – considered as a directorate risk, to be managed by the Resources directorate.

## Changes to risk triggers, consequences and control measures

The Risk Champions Group reviewed the corporate risk register and proposed the following changes to risks on the corporate register which was agreed by the Corporate Management Team (CMT) at its meeting on 18<sup>th</sup> November 2015: -

<b>Risk</b>	<b>Current Risk Rating</b>	<b>Risk Event</b>	<b>RCG Recommendation</b>	<b>Directorate</b>
ASD0015	15	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	Control measures need to be reviewed and clarity required on how control measures mitigate risk.	<b>ASD</b>
CSDR0002	15	Councils inability to meet demand for school places	Content and quality of required control measures requires precision.	<b>CSD</b>
CSD0016	15	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.	Satisfactory – no issues raised.	<b>CSD</b>
LPGCOM0003	12	Failure to effectively manage the reputation of the Council.	Control measure and risk owner update required.	<b>LPG</b>
RSB0019	15	Maintaining financial viability/balance in 2016/17 to 2017/18	Satisfactory – no issues raised.	<b>Resources</b>
LPGSE0001	12	Failure to achieve community cohesion Radicalisation of young	LPG risk champion to liaise with risk owner for required update	<b>LPG</b>

		people and gangs	and clarification on whether this remains an LPG risk. Required controls need to be identified.	
DR0029	20	Council is unable to identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019	New Risk – to be considered at the next meeting	<b>D&amp;R</b>
LPGLS0001	12	Non-compliance with corporate governance procedures	Satisfactory – no issues raised	<b>LPG</b>
DRA0016	15	Failure to meet the borough's housing targets	Satisfactory – no issues raised	<b>D&amp;R</b>
CLSCEI0008	10	There is a risk that, should a major incident take place affecting council services, there may be a failure to implement an effective response.	Update required on control measures	<b>CLC</b>

Further, the Risk Champions Group noted the following: -

- There are currently 321 active risks on the Council's Risk Management Information Systems (JCAD) of which 131 are due for review.
- There are also 289 active control measures on JCAD of which 131 are due for review

*Action - The Risk Champions will highlight its recommendations and the need for review of risks and controls with all relevant corporate directors.*

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

- 6.1 There are no specific financial implications arising from the recommendations within this report. General comments with regards the importance of effective risk management and the consequences of failure to monitor and manage organisational risks are contained within the body of the report.

## **7. Legal Comments**

- 7.1 The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of



section 3 of the Local Government Act 1999. This is known as its Best Value Duty.

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

## **8. One Tower Hamlets Considerations**

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

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

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

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

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

## **11. Risk Management Implications**

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

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

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

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## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- None

### **Appendices**

- Appendix 1 Corporate risk register
- Appendix 2 Risk Matrix

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

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

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

- None

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

- N/A



Detailed Risk Report (incl Control Measure Target Date)

Adults Services Directorate

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	There is a failure of one or more of the controls which fails to identify the degree of risk to a vulnerable adult. Poor practice and inadequate management oversight. Failure of quality control systems. Service user fails to work to agreed partnership / agency arrangements. Poor communication and partnership work. Poor resourcing of service areas against increased demand. Local authority contracted out service do not have sufficiently robust safeguarding arrangements.	Harm to an individual.  Reputational damage to the Council.  Potential for legal proceedings against the council leading to financial loss.  Loss of confidence in safeguarding capability.	Revised safeguarding procedures introduced from care act implemented. Robust safeguarding procedures in place.  Target operating module as part of the care act implemented. This includes key worker role assigned.  Signs and safety framework implemented. This framework helps identify the risks in a strategic manner.  CQC care commission embargo list used. This list is available from the CQC highlighting all providers where the CQC has raised concerns.  Failed visit policy and procedures in place.	3	5	15	Oversight through management reporting  <b>Cath Scholefield</b> <b><u>Required Control Measure Target Date:</u></b> <b>11/11/2015</b> Information campaigns to raise awareness of safeguarding oversight from safeguarding adult's board  <b>Cath Scholefield</b> <b><u>Required Control Measure Target Date:</u></b> <b>15/12/2015</b> 4 year (2015 – 2019) adults board strategy  <b>Cath Scholefield</b> <b><u>Required Control Measure Target Date:</u></b> <b>25/01/2016</b> Safeguarding issues as part of contract management procedures  <b>Cath Scholefield</b> <b><u>Required Control Measure Target Date:</u></b> <b>15/02/2016</b> Developing a strategic approach to reviewing and analysing data in a systematic way.	2	5	10	Cath Scholefield	A Safe And Supportive Community		

Detailed Risk Report (incl Control Measure Target Date)



Adults Services Directorate

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
								<p>The Council and its partners have a number of controls to monitor and safeguard vulnerable adults including data from a variety of sources.</p> <p>The proposed control seeks to use this from a structured analysis to help identify areas of risk.</p> <p><b><i>Karen Sugars</i></b></p> <p><b><u>Required Control Measure Target Date:</u></b></p>							

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**Detailed Risk Report (incl Control Measure Target Date)**
**CDResources**

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
CSDR0002	Council's inability to meet demand for school places	<p>Actual roll &gt; projected roll exceeds available capacity</p> <p>Higher than anticipated birth rate / inward migration</p> <p>Insufficient capacity created in time to meet need</p> <p>Unable to secure executive decisions regarding the use of existing school,</p> <p>Decisions not taken in time to implement projects to provide places</p> <p>'Scheming" Powers: Schedule 1 of the 2010 Academies Act gives the Secretary of State powers to transfer a school property to an academy and/or free school</p>	<p>Failure to have sufficient statutory school places to meet local need, children out of school and LA failing to meet duty</p> <p>Additional transport costs; lack of parental engagement as children not at local school</p> <p>Insufficient capacity for school places realised in existing estate.</p> <p>Additional costs incurred due to re phasing of projects if unanticipated delays in decision making.</p>	<p>Service Head - Learning and Achievement chairs regular meeting to review short/medium and long term position</p> <p>Monitoring of projected pupil numbers V roll numbers and planned capacity</p> <p>Planning sufficient expansion options to provide additional capacity required</p> <p>Sites for new schools secured following Examination in Public</p> <p>Annual review of capital programme schemes and available resources (grant, s. 106 &amp; CIL</p> <p>Engagement of GLA to provide projections to strengthen reliance on LBTH model - Further review to provide annual projections</p> <p>Produce briefing on primary sites and accurate timely updates. Timing of further reports to be agreed. Programme of primary school site reviews commenced.</p> <p>GLA continue to provide roll projections; LBTH supply GLA with housing development data</p> <p>Revise the governance arrangements of the Pupil Place Planning group to report directly to the Corporate Asset and Capital Board</p>	3	5	15	1	5	5	Kate Bingham	A Great Place To Live

Detailed Risk Report (incl Control Measure Target Date)



CDResources

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
Page 138				<p>Need for places included in LBTH Best Value Plan</p> <p>In assessing surplus or underused sites for disposal, particular attention will be paid to ensuring that where school places can be achieved, these are highlighted and sites will be considered for new school and/or expansion provision.</p> <p>Approved at Cabinet 28 July 2015</p> <p>Quarterly monitoring by Commissioners</p>											
				<p>Sites for two new primary schools secured</p> <p>Cabinet approved 5 FE primary school places - May 2015</p>											

Detailed Risk Report (incl Control Measure Target Date)



Children's Services Directorate

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
CSD0016	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.	<p>There is a failure of one or more the controls which fails to identify the degree of risk to a child</p> <p>Poor practice and inadequate management oversight</p> <p>Failure of quality control systems</p> <p>Service user fails to work to agreed partnership / agency arrangements</p> <p>Poor communication and partnership work</p> <p>Poor resourcing of service areas against increased demand</p> <p>Local authority contracted out service do not have sufficiently robust safeguarding arrangements</p>	<p>Harm to an individual</p> <p>Poorer than expected outcomes for a child.</p> <p>Reputational damage to the council</p> <p>Potential for legal proceedings against the council leading to financial loss</p> <p>Loss of confidence in safeguarding capability across the council, partnership and wider.</p>	<p>Adherence to statutory government guidance, policies and procedures laid down by the council and LSCB / SAB Local Safeguarding Children's Board</p> <p>Statutory government guidance, policies and procedures in place.</p> <p>Quality assurance systems including case audits, LSCB and SAB sub-groups.</p> <p>Effective working relations and swift communication across partnership agencies that is held at different levels of Children's s</p> <p>Effective working relations and swift communication across partnership agencies that is held at different levels of Children's services</p> <p>Safeguarding board to seek evidence that existing performance measures are being upheld</p> <p>Regular updates with key partner agencies, (examples) Police, NHS and Schools</p> <p>Strong and effective relationships with partner agencies.</p> <p>Consultation with children subject to looked after plans to be sought in conjunction with the review of their plans</p>	3	5	15	2	5	10	Debbie Jones	A Safe And Supportive Community

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Detailed Risk Report (incl Control Measure Target Date)



Children's Services Directorate

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk	Required Control Measures	Target Risk	Responsibility	CPT
					L I Total	L I Total	L I Total		
Page 140				<p>Quality assurance systems in place to provide triangulation of information Provide evidence to safeguarding board that existing performance measures are being upheld</p> <p>Regular and good quality management and performance information</p> <p>Evolve System risk assessment of trips reviewed by Health and Safety Advisor</p> <p>Serious/serious case review process in place</p> <p>Safeguarding training programme in place covering induction and workforce development programme</p> <p>Staff complete the Health and Care professions Council (HPC) re-registration process every 3 years</p> <p>CEO appointed, independent Chair of the Safeguarding Board. The local safeguarding children's board makes a key contribution to effective working relationships between the authority, each of the authorities relevant partners and such other persons or bodies working with children in the local authorities area including where services are contracted out.</p> <p>Robust commissioning that includes safeguarding checks of providers</p>		<p>Ensure that CMT have a view of the activities within the service and develop some assurance using the corporate accountability framework</p> <p><b>Debbie Jones</b> <b><u>Required Control Measure Target Date:</u></b></p>			



Detailed Risk Report (incl Control Measure Target Date)



Children's Services Directorate

Ref	Risks	Triggers	Consequences	Existing Control Measures Multi-agency safeguarding hub  Effective oversight of all key activities by service managers  Review arrangements of looked after children and child protection is led by the child protection review service which has a critical challenge role to children's social workers	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		

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Detailed Risk Report (incl Control Measure Target Date)



Communications

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
LPGCOM003	Failure to effectively manage the reputation of the Council	Relationship with central government / increased scrutiny Potential for criticism from constituents Potential lack of clarity of political situation Lack of clear guidance on reputation / "brand" management Poor perception of Council following intervention from central government and PWC report and election petition	Breakdown in relationships with key stakeholders Loss of key funding streams Community becomes fractured Impact upon service delivery Increasing demands on core officers Poor perception of the Borough Increased external scrutiny	Implementation of best value improvement plan  Clear communication protocols in place for both proactive and reactive management of the Council's reputation.  Strategy laid out for how Service Heads communicate with third parties  Constitution in place that governs the actions and behaviours of members and officers.  Council code of conduct in place.  Communications strategy in place Communications strategy in place to proactively promote the Council's reputation, including for example the production of a weekly Council newspaper and social media usage.  Information Governance Group and FOI Board in place  Open and transparent decision making provisions in place. For example the filming of cabinet meetings.	4	3	12	4	3	12	Will Tuckley	One Tower Hamlets

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**Detailed Risk Report (incl Control Measure Target Date)**
**Corporate Finance**

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
RSB0019	Maintaining financial viability /balance in 2016/17 to 2017/18	Reduction in funding NHS integration – unfunded services transferred in through Public Health Changes in Government initiatives Potential inability to manage working capital effectively Increasing expectation of the Council aligned with increasing local need Further austerity programme rolled out by central government impacting local authority CSR in autumn 2015 HRA changes Population growth Claim resulting in circa £1m additional annual cost to the authority	Future service cuts Inability to meet public expectation Increased pressure on delivery of statutory and priority services Government intervention Reduction in reserves	Formal annual budget setting process and medium term financial plan  Continuous monitoring of Council's medium term financial plan in place  Monthly monitoring and management reporting of Council's financial position  Annual External Audit health check on financial processes including budgets and reporting  Programme Manager for Council Savings Plan in place.  Corporate Programme Board formed to monitor delivery of savings programme. Monitoring in progress.  Develop and implement corporate approach to deliver and monitoring of Council savings plan and transformation plan  On-going advancement of linkages between the 30 year HRA Business Plan and Council service plans. Longer term financial and investment strategy	3	5	15	2	5	10	Zena Cooke	One Tower Hamlets

**Detailed Risk Report (incl Control Measure Target Date)**
**Corporate Strategy and Equalities**

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

Detailed Risk Report (incl Control Measure Target Date)



Corporate Strategy and Equalities

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				On-going development of the "Prevent Programme" to include work in schools. Officer appointed to lead this work from May 2014.  Competing prevent agenda action plan funded by Home Office											

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Detailed Risk Report (incl Control Measure Target Date)



Development and Renewal

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

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Detailed Risk Report (incl Control Measure Target Date)



Legal Services

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
LPGLS0001	Non-compliance with corporate governance procedures	Poor understanding of governance processes / lack of clarity of processes Lack of awareness on areas such as conflict of interest and the Bribery Act Possible pressure from politicians on officers to deviate	Ineffective decision making Potential for reputation damage Poor council performance Failure to optimise opportunities Adverse media reporting	<p>Council Constitution in place</p> <p>Annual Governance Statement process, incorporating the Audit Committee. On 13 June 2014, the draft AGS was reported to the audit committee and it is planned to finalise this at its Sept Committee.</p> <p>Regular meetings of the Statutory Officers Co-ordination Group. Ongoing.</p> <p>Regular Section 151 Officer meetings. Arrangements are in place for the regular reporting of significant governance matters via the Head of Audit and Risk Management to the Monitoring officers and the S151 officer.</p> <p>Financial regulations have been updated and further clarification of staff, manager and senior officer responsibilities have been incorporated.</p> <p>The post of 'financial compliance manager' has also been created through the restructure of finance and the role of that post is to monitor and report and report to the section 151 officer on non-compliance in key areas such as use of purchase cards, petty cash, budget monitoring etc...</p>	3	4	12	2	4	8	Graham White	One Tower Hamlets

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Detailed Risk Report (incl Control Measure Target Date)



Legal Services

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				<p>Member training provided on Code of Conduct.</p> <p>Training for members and independent co-opted members of Standards Advisory Committee on Standards Framework was held on 14/07/15.</p> <p>Mandatory training programme on licensing and planning in place for members of the Planning Committee. Mandatory training for Members of the Planning Committee was held on 29/06/15, 01/07/15, 07/07/15 and 21/07/15. Some Members were unable to attend these sessions so the Legal Planning Team Leader provided training to smaller groups. Training was given to Members of the Licensing Committee by Leo Charamides (Counsel).</p> <p>Member Induction Programme took place June - July 2014. (After the Local, Mayor and Euro elections).</p> <p>Information Governance Group and FOI Board in place</p> <p>Update Constitution to include agreed revisions. Updated version of the constitution is on the Council's website - updated May 2014.</p>											

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Detailed Risk Report (incl Control Measure Target Date)



Legal Services

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				Existing Control Measures E-learning anti-fraud and bribery training programme including Bribery Act Provisions The e-learning and the accompanying test provide staff an opportunity to be appraised of the bribery regulations and more generally, of the anti-fraud arrangements.											

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Detailed Risk Report (incl Control Measure Target Date)



Strategy, Regeneration & Sustainability

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
DRA0016	<p>Failure to meet the borough's housing targets</p> <p>NB: The Executive Mayor has established a Cabinet Commission to investigate the delivery of 'affordable' housing in Tower Hamlets and the degree to which it is affordable for those on low and average incomes in the borough who cannot afford to access market housing. The Housing Policy &amp; Affordability Commission is due to report in December 2015. It will consider the approach of the Council to achieving homes which are truly affordable.</p>	<ol style="list-style-type: none"> <li>Negative impact of ongoing welfare reform agenda</li> <li>Reduction in supply of suitable accommodation</li> <li>Private sector landlords increasingly resistance to accepting residents on benefits</li> <li>Universal credit implications/potential increase in tenants in arrears</li> <li>Insufficient capital financing to deliver new homes on available sites</li> <li>Insufficient revenue protection to cover debt charges in the HRA following the Government's summer 2015 budget.</li> <li>Right to Buy extended to housing association properties</li> <li>As a result of policy changes set out in the Government's Summer 2015 budget local housing associations amend development plans in favour of shared ownership, market rent and outright sale at market rates.</li> </ol>	<ol style="list-style-type: none"> <li>Increase in homelessness</li> <li>Increase in costs for temporary housing e.g. B&amp;Bs</li> <li>Rental market instability</li> <li>Negative impact on initiatives to reduce overcrowding</li> <li>Council fails to achieve its targets</li> <li>Reputation damage</li> <li>Increases in right to buy leading to a reduction in housing stock</li> <li>Significant reduction in supply of housing association affordable and social rent housing</li> </ol>	<p>Bid for any available match funding made available by central government</p> <p>Consider off site provision for specific private sector planning applications</p> <p>Include an element of cross subsidy through mixed tenure development schemes</p> <p>The preparation of master planning documents to promote housing growth in appropriate areas - Whitechapel Masterplan</p> <p>The preparation of masterplanning documents to promote housing growth in appropriate areas - South Quay Masterplan 5.3 South Quay Master Plan Supplementary Planning Document The Mayor noted the additional submission received DECISION 1. To adopt the South Quay Masterplan SPD (contained in Appendix 1 to the report) and approve its supporting documents (contained in Appendices 2-7 to the report). 2. To agree that upon adoption of the South Quay Masterplan SPD, the Millennium Quarter Masterplan SPD (2000) will be revoked. 3. To note the late submission received on behalf of the Ballymore Group.</p>	3	5	15	2	5	10	Aman Dalvi	A Great Place To Live

Detailed Risk Report (incl Control Measure Target Date)



Strategy, Regeneration & Sustainability

Ref	Risks	Triggers	Consequences	Existing Control Measures Attain Housing Zone designation Housing zone designation attained.	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
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**Detailed Risk Report (incl Control Measure Target Date)**
**Street Enforcement & Response Services**

Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
CLSCIEI0008	There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response. (Corporate level risk)	Failure by Directorates to ensure that the Borough Major Emergency Plan (Part 3B) is kept up to date with Directorate information and procedures, and that staff are unaware of the EP process.	(1) Systemic failure of the Council to continue to operate during a crisis period as a consequence of a civil event or situation; (2) Resulting in a slower than expected management response causing increased disruption to key service delivery, inconvenience to service users and the stakeholders, adverse public criticism and additional costs to the Council.	<p>Business continuity plans kept up to date Business continuity plan updates remain outstanding from 3 Directorates – CX, Resources and ECSW, meaning the Council's corporate BC plan is out of date.</p> <p>Staff with extensive experience in dealing with incidents need to be in place Officers in the Civil Protection Unit have dealt with this type of incident on several occasions, and have gained quite extensive experience on dealing with this type of incident and the action that may be required to be taken.</p> <p>Any future restructure will need to ensure that key posts are retained within the organisation to continue to minimise this risk</p> <p>Borough Emergency Management Team Borough Emergency Management Team to co-ordinate the Council's response on tactical matters.</p> <p>6 month review of EP plan with Directorate changes.</p> <p>Annual report to CMT</p>	2	5	10	2	3	6	Trevor Kennett	One Tower Hamlets



## 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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Non-Executive Report of the:  <b>Audit Committee</b>  DATE 08 <sup>th</sup> December 2015	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke – Director of Resources	<b>Classification:</b> Unrestricted
<b>Progress on the National Fraud Initiative (NFI) Exercise, 2014</b>	

<b>Originating Officer(s)</b>	Tony Qayum, Corporate Anti-Fraud Manager, Sue Oakley, Corporate Anti-Fraud Team Leader
<b>Wards affected</b>	All wards

## 1. Introduction

- 1.1 This report provides details of the background and changes to the National Fraud Initiative, and the National Fraud Initiative (NFI) 2014 exercise. This is a bi-annual data matching exercise whereby all Local Authorities and some other government agencies match their data to prevent and detect fraud and error in their systems.

## 2. Recommendations

- 2.1 The Audit Committee is asked to note this report.

## 3. Background

- 3.1 The NFI compares different sets of data, for example payroll and benefit records against other records held by the same or another organisation, bringing to light potentially fraudulent claims and payments. Where a match is found it may mean that further investigation is required.
- 3.2 The NFI has been running since 1994, and was originally managed by the Audit Commission. The Commission processed the NFI data under its statutory powers under part 2A of the Audit Commission Act (1998) these powers put the matching on a statutory footing for local government and NHS bodies
- 3.3 The Serious Crime Act 2007 (SCA) gave the Commission new powers to enable the benefit of NFI to be extended to Central Government and the private sector. The SCA inserted a new paragraph into the 1998 Audit Commission Act.
- 3.4 The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection

Act 1998. Any person or body conducting or participating in the exercise must by law, have regard to a statutory Code of Data Matching Practice.

- 3.5 Over time the exercise has evolved to extend its partners to all Local Authorities in England, Wales, Scotland and Northern Ireland, and now includes pension details from the Police, Health Service and Fire Service. To date over £1 billion has been identified in fraud and overpayments over the various exercises across the country.
- 3.6 The 2014 exercise is now managed by the Cabinet Office following the dissolution of the Audit Commission.

**4. The 2014 (Current) Exercise Position**

- 4.1 As mentioned previously, the main NFI matching exercise takes place bi- annually, with the current exercise commencing in October 2014 when the data was supplied. This current exercise will run for a two year period, whereby the matched output will be examined gradually throughout that period.
- 4.2 By contrast, the Council Tax and Electoral Register matching takes place annually.
- 4.3 Below is a list of the 16 data sets provided to NFI for the current matching exercise:

LBTH Pensions	Transport Passes /Residents Permits
LBTH Payroll	Blue Badge Holders
Housing Benefits	Right to Buy Applicants
Housing Tenants (THH)	Personal Budget Holders
Insurance Claimants	Private Supported Care Home Residents
Market Traders	Creditors Standing
Alcohol Licence Holders	Creditors Payments
Electoral Register	Council Tax Account Holders

- 4.4 On 29<sup>th</sup> January 2015 the matches for the main exercise were released and for this Authority totalled 17,642 individual matches. These are presented in reports collated by type of match and subject matter. The volume of matches is of a very similar number to the previous (2012) exercise.
- 4.5 The matched data is contained on a secure website and access is granted to selected officers from each relevant service so that they can examine their own particular output and evaluate each match for the likelihood of fraud or error.
- 4.6 Many of the matches are erroneous and arise because the data held is not completely up to date or has been inaccurately input. However,



ideally, each one needs to be examined to eliminate the non-problem matches.

- 4.7** But because of the sheer volume and spread of matched output there are invariably some reports that are not fully examined. The NFI system has its own inbuilt risk assessment system and this is used as a guideline to prioritise those matches which need attention as a priority. Also, experience and knowledge of previous years' exercises dictates which reports yield results, and which involve less accurate data and therefore contain largely inaccurate matches. This also helps us to prioritise the progress of the exercise.
- 4.8** The Risk Management Section oversees the exercise, and aims to guide each service to completing its batch of NFI reports. Some reports are dealt with entirely by investigators within the Risk Management Section, such as benefits and tenancy, as investigators specialising in these areas are based within the team.
- 4.9** Where fraud or error is identified on a particular match the details are recorded on the NFI system, and in most cases recovery of the monies is sought. Where a system weakness is identified, the service in question should seek to resolve the issue by strengthening their controls to prevent recurrence. Similarly matches arising from data errors should prompt the service to improve the quality of its data.

**5. Progress on the 2014 Exercise**

- 5.1** To date 1,936 matches have been processed, and a further 448 are still in progress. Twenty five cases of fraud have been discovered and a further 102 cases of 'error' have been recorded. Matches cleared with no issue amount to 1805. Appendix 1 (attached) gives more detail of the progress of completed matches.
- 5.2** A breakdown of actions taken on fraud cases identified is included as Appendix 2
- 5.3** The total monetary value of the fraud and error identified to date amounts to £279,788.77
- 5.4** A breakdown is shown below:

<b>Subject</b>	<b>Monetary value</b>	<b>Number of cases</b>	<b>Recovery action</b>
Housing Benefit related	£208,140.52	23 (fraud) 1 (error)	Yes
LBTH Pensions	£14,819.17	Not yet classified	Yes, where possible
Council Tax (Single Person Discounts)	£56,829.08	168 (error)	Yes

Housing Tenancy	1 Property	1 (fraud)	Yes, property recovered
Blue Badge	Not valued	1 (fraud) 100 (error)	Yes, badges stopped or recovered

- 5.5** The majority of this relates to Housing Benefit irregularities, where a specific value of benefit is identified as having been overpaid as a result of an investigation. Recovery is usually sought in addition to potential criminal prosecution action, or other sanction such as a Caution, or an Administration Penalty (a fine). At present consideration is being given regarding further action to be taken on the cases where the applicant is an employee of the Council. HR and the relevant Service Heads are notified on these individual's circumstances so that HR procedures can be instigated.
- 5.6** The LBTH pensions value arose where the matches highlighted pensioners who had died, unknown to the authority. On these (27) cases recovery is sought by the Pensions Section via their liaison with the deceased's family.
- 5.7** In addition one Social Housing Property has been recovered,
- 5.8** 100 Blue badges have been recovered or stopped due to the recipient being deceased, unbeknown to the authority. At present no further action beyond recovery of the badge or preventing further issue has been taken on these.
- 5.9** A further area which is undergoing sifting, but has not yet yielded results is the matching of duplicated creditor payments. The Finance department are currently working on this with the Risk Management Team, but due to their current internal controls have found that duplicated payments have in the main, already been identified and rectified prior to the matched data being released.
- 5.10** This 2014 exercise will continue for a further year, and a new matching exercise programme will begin in the autumn of 2016. Where prosecution action is sought (mainly on Housing Benefit cases) the outcomes may not be known for a year or more, depending on the speed the cases progress through the criminal courts system. Some conviction outcomes from the 2012 NFI exercise are still coming in, as the cases are just reaching court now.
- 5.11** However, the Council Tax and Electoral Register data, which is designed to highlight discrepancies in Single Person Discounts awarded on Council Tax, is matched every year using a separate system, and will re commence in the early part of 2016.
- 5.12** Compared to the previous (2012) exercise the number of frauds identified to date is very similar to this exercise (25 on this exercise compared to 27 on the last) otherwise we have processed around half

of the number of matches and have only half as many cases under investigation. Steps are being taken to ensure all priority cases identified from the NFI exercise are dealt with, as a minimum.

## **6. Other Initiatives/ the future of NFI**

- 6.1** There are a number of other data-related anti-fraud initiatives under development across the country at present which involve private sector partners. The Cabinet Office in particular is running a number of pilots, one of which is likely to involve our borough.
- 6.2** The outcome of these projects may change the future of the NFI, particularly as technology develops and matching becomes more sophisticated. The current NFI only matches bi annually and since the data is supplied many weeks before the matching, it is in some ways out of date by the time the matches reach the recipients.
- 6.3** Going forward into the 2016 exercise, the amount and volume of fraud and error identified from NFI is likely to diminish for Tower Hamlets, since the Benefit Fraud Investigators are due to transfer to the Department for Work and Pensions on 1<sup>st</sup> February 2016. Without this resource in-house to sift and investigate the benefit matches the volume and overall value of the outcomes is going to be much lower for this borough.

## **7. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 7.1** This report is an update of progress with National Fraud Initiative work as part of the 2014 programme. To date the Council has identified notional and actual savings of £280k from its participation in the National Fraud Initiative, details are provided in 5.4 above.
- 7.2** There are no specific financial implications emanating from this report. The Corporate Anti-Fraud 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.

## **8. LEGAL COMMENTS**

- 8.1** The Serious Crime Act 2007 gave the Audit Commission new statutory powers to conduct data matching exercises by inserting a new Part IIA into the Audit Commission Act 1998 ('the 1998 Act'). Although the 1998 Act was abolished last year by the Local Audit and Accountability Act 2014 ('the 2014 Act'), the National Fraud Initiative (NFI) was moved to the Cabinet Office in advance of the closure of the Audit Commission.

8.2 Statutory Guidance released pursuant to section 32(g) of the 1998 Act, “The Code of Data Matching Practice” was published in 2008 and most recently updated on 20 March 2015. The statutory basis for this code is now set out in Schedule 9 of the 2014 Act. The purpose of this code is to help ensure that the NFI and everyone involved in NFI data matching exercises comply with the law, especially the provisions of the Data Protection Act 1998. It also promotes good practice in data matching. It includes guidance on:

- the notification process for letting individuals know why their data is matched and by whom
- the standards that apply
- where to find further information

8.3 Additionally, unless certain exemptions within the Data Protection Act 1998 apply, the Council is required to provide fair processing information which complies with the “Fair Processing” Statutory Guidance released on 20 March 2015.

8.4 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council’s functions. The consideration by the Audit Committee of this report is consistent with the Council’s obligations and is within the Committee’s functions.

## **9. ONE TOWER HAMLETS CONSIDERATIONS**

9.1 There are no specific One Tower Hamlets considerations.

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

10.1 The effective investigation of allegations of Fraud and Corruption complies with the councils Best Value duty to manage its resources effectively and ensure that the three E’s of Economy, Efficiency and Economy are preserved in order to deliver effective services to the public we serve.

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

11.1 There are no specific SAGE implications.

## **12. RISK MANAGEMENT IMPLICATIONS**

12.1 The need to manage resources effectively and identify fraud and abuse is a cornerstone in ensuring that risks to loss are effectively managed and the outcome for the last financial year demonstrates the Council’s commitment to foster an Anti-Fraud culture.

**13. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 13.1 Effective Anti-Fraud arrangements the Council contributes to a reduction in crime and offers good practice in resolving scope for abuse of assets and systems.
- 

**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

- NONE

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

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

- NONE

- 

**Officer contact details for documents:**

- N/A

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Appendix 1

<b>NFI 2014 Report for Committee - Appendix 1</b>				
<b>Progress on Matches at October 2015</b>				
<b>Match Type</b>	<b>total number on all reports</b>	<b>no. of Priority matches</b>	<b>no. of matches completed</b>	<b>still in progress</b>
Benefits	9,856	3,134	751	386
Pensions	201	124	35	27
Payroll	892	161	131	10
Housing Tenants	127	51	70	18
Right to Buy	1,051	426	443	2
Blue Badge	383	351	347	0
Resident Parking Permit	61	38	0	0
Private Care Homes	19	1	18	1
Insurance Claimants	70	15	65	0
MarketTraders	29	1	5	5
Personal Budgets	278	271	5	4
Alcohol Licences	1	1	0	0
Creditors History	4,218	418	108	17
Creditors standing	2,274	0	0	0
<b>Totals</b>	<b>19,460</b>	<b>4,992</b>	<b>1978</b>	<b>470</b>

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**Appendix 2**

<b><i>NFI 2014 Report for Committee - Appendix 2 Breakdown of action taken on 'Fraud' identified cases</i></b>		
<b>Match type</b>	<b>Number identified as Fraud</b>	<b>Action taken</b>
Benefits	23 cases	3 convictions, 7 administrative penalties, 9 cautions, 3 prosecutions approved, 1 awaiting decision
Housing Tenants	1 case	1 property recovered
Blue Badge	1 case	1 case under consideration for prosecution
<b>Totals</b>	<b>25</b>	

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# Agenda Item 4.6

Non-Executive Report of the:  <b>Audit Committee</b>  8 December 2015	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b> Unrestricted
<b>2014/15 Local Government Pension Fund Annual Report</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment and Treasury Manager
<b>Wards affected</b>	All wards

## Summary

This report presents the audit report to the Annual Pension Fund Report Pension Fund Statement of Accounts for 2014/15.

The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules and was approved by the 25<sup>th</sup> November 2015 Pensions Committee. The report was published by 1<sup>st</sup> December 2015 and is available on the Council website in the “Council & Democracy” section.

KPMG have completed their audit of the Pension Fund and provided an unqualified opinion. Their report is enclosed with the report.

## Recommendations:

The Pension Committee is recommended to:

- Note the Pension Fund Annual Report;
- Note the approved Pension Fund Statement of Accounts;
- Note the auditor’s ISA260 report.

## **1. REASONS FOR THE DECISIONS**

- 1.1. The Local Government Pension Scheme (Administration) Regulation 2008 requires the Authority as the administering body for the London Borough of Tower Hamlets Pension Fund to approve and publish an annual report by 1 December following the year end. The report is approved by the Pension Committee.
- 1.1 The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets

## **2. ALTERNATIVE OPTIONS**

- 2.1 There are no alternative options in so far as the publication of the Statement of Accounts and Annual Reports is a legislative requirement.

## **3. DETAILS OF REPORT**

- 3.1 The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.
- 3.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Service Code of Recommended Practice (SERCOP).
- 3.3 The London Borough of Tower Hamlets is the Administering Authority for the London Borough of Tower Hamlets' Pension Fund and the Pensions Committee act as trustees of the Pension Fund which includes overseeing the accounting and financial management of the Pension Fund.
- 3.4 The Pensions Committee approved the Pension Fund Annual Report and Accounts at its meeting on 25<sup>th</sup> November 2015. The draft Pension Fund accounts were presented to Audit Committee in July 2015. KPMG started the audit of the account in October 2015.
- 3.5 KPMG issued an ISA260 Report and opinion on the Council's Pension Fund Accounts in November 2015. This report is within appendix of this report.
- 3.6 KPMG provided an unqualified opinion on the Pension Accounts. There are no matters of concern that they need to bring to the attention of the Committee. It is expected that the Council's full set of Accounts for 2014/15 will be tabled at the March 2016 Audit Committee.
- 3.7 The Department Communities and Local Government (DCLG) introduced the requirement for Councils to publish before the 1st December an annual report which incorporates elements of the financial accounts.

## **4. THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS**

- 4.1 The Accounts comprise two main statements with supporting notes. The main statements are:

- Dealings with Members Employers and Others which is essentially the funds revenue account
  - The Net assets Statement which can be considered as the funds balance sheet.
- 4.2 The return on investment section of the Accounts sets out the movement in the net worth of the fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio. The statement has two main sections:
- The financial transactions relating to administration of the fund.
  - The transactions relating to its role as an investor.
- 4.3 The fund income section of the Report principally relates to the receipt of contributions from employers and active members and the payment of pensions benefits. The section indicates that the Fund is cash positive in that the receipt of contributions exceeds the pension payments - £5.2m in 2014/15 compared to £8.2m in 2013/14 and £3.2m in 2012/13.
- 4.4 Whilst the Fund net cash flow position in 2014/15 is 36% less than the previous year. Investment income increased over the year by £5.2m (46.8%) mainly due to an increase in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) decreased by £1.8m (51.4%). It is not possible to predict the value of transfer value payments as they are dependent on an individual's length of service and salary and as such may vary significantly. Employee contributions rose by £1.0m (10.0%), the increase being attributable to the new CARE (career average) scheme which sees contributions deducted from all additional pay and also to the increase in the banding rate which sees higher rates of pay subject to a contribution rate of up to 12.5%. Employer contributions went up by £3.7m (8.7%) due to an increase in the employer's deficit funding payment of £2m.
- 4.5 In 2014/15 the overall Fund expenditure increased by £5.7m (11.4%). The major contributor to the increase was the rise in transfers out of £4.5m (160.7%). There was a modest increase in investment management costs of £0.1m (4.2%) while administration costs fell by £0.3m (27.3%). Benefits payable rose by £1.4m (3.2%).
- 4.6 Overall, fund membership has increased. The active members increased marginally by 68 (1%) and deferred and retired membership numbers by 122 (1.8%) and 106 (2.5%) respectively.
- 4.7 The investment performance section of the Report details returns on the investment portfolio and the impact of managers' activities and investment markets on the value of investments. The Fund achieved a return on its investment portfolio of 11.8% in 2014/15 outperforming benchmark return of 11.4% by 0.4%. The Fund posted 3 year return of 10.7% which is marginally better than the benchmark return of 10.0% and delivered a 10 year return of 7.1% lagged benchmark return of 7.4% by 0.4%.

- 4.8 Overall, fund assets increased by £125m. The increase was mostly due to gains made from performance of financial markets in which the Fund held its investments and a net gain between fund income and expenditure.
- 4.9 The net asset statement represents the net worth (£1,138m) of the fund as the 31<sup>st</sup> March 2015. The statement reflects how the transactions outlined in the other statement have impacted on the value of the fund's assets.
- 4.10 The Annual report also includes three key statements (Funding Strategy Statement, Statement of Investment Principles and Governance Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.
- 4.11 The Funding Strategy Statement undergoes a detailed review and was updated after the triennial valuation. The 2013 triennial valuation outcome was reported, discussed and approved at the Pensions Committee meeting of 27<sup>th</sup> February 2014.
- 4.12 The purpose of the Funding Strategy statement is threefold:
- To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
  - To support the regulatory framework to maintain as nearly constant employer contributions rates as possible; and
  - To take a prudent longer-term view of funding those liabilities.
- 4.13 The Statement of Investment Principles facilitates adherence to best practice in the management of pension schemes as set out by the revised Myners Principles and the Fund is required to state the extent to which it has complied with these principles.
- 4.14 The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.

## **5. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 5.1 The comments of the Corporate Director of Resources have been incorporated into the report.

## **6. LEGAL COMMENTS**

- 6.1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 imposes a duty on the Council as an administering authority to prepare a pension fund annual report.
- 6.2 The report should deal with the following matters:
- (a) management and financial performance during the year of the pension;
  - (b) an explanation of the investment policy for the fund and a review of performance;
  - (c) a report on arrangements made during the year for administration of the fund;
  - (d) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;

- (e) a Governance Compliance Statement;
- (f) a Fund Account and Net Asset Statement;
- (g) an Annual Report dealing with levels of performance and any other appropriate matters;
- (h) the Funding Strategy Statement;
- (i) the Statement of Investment Principles;
- (j) statements of policy concerning communications with members and employing authorities; and
- (k) any other material which the authority considers appropriate.

## **7. ONE TOWER HAMLETS CONSIDERATIONS**

- 7.1 The Pension Fund Accounts demonstrate financial stewardship of the fund's assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive for the Council.

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

- 8.1 The monitoring arrangement for the Pension Fund and the work of the officers, advisers and consultants should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

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

- 9.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## **10. RISK MANAGEMENT IMPLICATIONS**

- 10.1 Accounts provide an effective mechanism to safeguard the Council's assets and assess the risks associated with its activities.

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

- 11.1 There are no any Crime and Disorder Reduction implications arising from this report.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Pension Fund Annual Report 2014/15 (available via link [http://www.towerhamlets.gov.uk/ignl/council\\_and\\_democracy/council\\_budgets\\_and\\_spending/annual\\_accounts.aspx](http://www.towerhamlets.gov.uk/ignl/council_and_democracy/council_budgets_and_spending/annual_accounts.aspx))
- KPMG Report To Those Charged With Governance (ISA260) for Pension Fund Annual Report 2014/15

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

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

- NONE

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

Bola Tobun(Investment & Treasury Manager) x4733

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*cutting through complexity*

# Report to those charged with governance (ISA 260) 2014/15

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London Borough of Tower Hamlets Pension Fund

November 2015

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

**This document summarises:**

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Pension Fund.**

**Scope of this report**

This report summarises the key findings arising from:

- our audit work at the London Borough of Tower Hamlets Pension Fund ('the Pension Fund') in relation to the Pension Fund's 2014/15 financial statements and Annual Report.

**Financial statements**

Our *External Audit Plan 2014/15*, presented to you in June 2015, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during October 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

**Structure of this report**

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Pension Fund.

**Acknowledgements**

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages for the Pension Fund. Section three of this report provides further details on each area.

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<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Pension Fund's financial statements as contained in the Pension Fund Annual Report by 30 November 2015.
<b>Audit adjustments</b>	Our audit has not identified any significant audit adjustments. A number of minor amendments focused on presentational improvements have been made to the draft financial statements.  We have not raised any recommendations as a result of our audit of the Pension Fund in 2014/15.
<b>Key financial statements audit risks</b>	We review risks to the financial statements on an ongoing basis. We identified one significant risk specific to the Pension Fund during 2014/15 with respect to the financial statements. This risk related to the LGPS reforms which commenced on 1 April 2014.  We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. There are no matters to report to you as a result of our audit work on this significant risk.
<b>Accounts production and audit process</b>	We have noted that the quality of the accounts and the supporting working papers has been maintained. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.  The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
<b>Completion</b>	At the date of this report our audit of the financial statements is complete subject to completing our final review and completion procedures.  Before we can issue our opinion we require a signed management representation letter.  We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

**We have not identified any issues in the course of the audit of the Fund that are considered to be material.**

**We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained in the Pension Fund Annual Report by 30 November 2015.**

**Proposed audit opinion**

Subject to all review and completion procedures being resolved satisfactorily, we anticipate issuing an unqualified audit opinion on the Pension Fund's financial statements included in the Pension Fund Annual Report following approval by the Pensions Committee on 25 November 2015.

**Audit differences**

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level (see Appendix 3 for more information on materiality) for this year's audit was set at £20 million. Audit differences below £1 million are not considered significant.

We did not identify any significant misstatements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Pension Fund will be addressing these where significant.

**Pension Fund Annual Report**

We have reviewed the Pension Fund Annual Report and confirmed that it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008.

The statutory deadline for publishing the document is 1 December 2015.


We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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In our External Audit Plan 2014/15, presented to you in June 2015, we identified the significant risks affecting the Authority and the Fund's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant audit risk	Issue	Findings
	<p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p>	<p>We have reviewed the controls and processes that the Pension Fund has put in place to accurately capture the data required by LGPS 2014. Our work focused on testing that the system has been set up to accurately calculate future benefit entitlement by testing a sample of calculations for members of the Pension Fund who retired in 2014/15.</p> <p>We have no matters to report in respect of the testing performed.</p>

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
 <p>Management override of controls</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> <li>All areas</li> </ul>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
<p>Page 179</p>  <p>Fraud risk of revenue recognition</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> <li>None</li> </ul>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2014/15</i> we reported that we do not consider this to be a significant risk for Local Authorities and Pension Funds as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

# Financial Statements (continued)

## Accounts production and audit process

The Authority has a well established and sound accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Pension Fund continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 30 June 2015. The Pension Fund has made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
<b>Quality of supporting working papers</b>	We issued our <i>Accounts Audit Protocol</i> including our required working papers for the audit in July 2015. The quality of working papers provided was good and met the standards specified in our <i>Accounts Audit Protocol</i> .
<b>Response to audit queries</b>	Officers resolved all audit queries in a timely manner.

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the London Borough of Tower Hamlets Pension Fund for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and the London Borough of Tower Hamlets Pension Fund,

its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Corporate Director of Resources for presentation to the Pensions Committee. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.



**Our audit has not identified any significant audit adjustments. A number of minor amendments focused on presentational improvements have been made to the draft financial statements.**

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

**Audit differences**

Our audit has not identified any significant audit adjustments.

A number of minor amendments focused on presentational improvements have been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

### Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Audit Committee and Pensions Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

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Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

#### **Auditor declaration**

In relation to the audit of the financial statements of the London Borough of Tower Hamlets Pension Fund for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and the London Borough of Tower Hamlets Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

For 2014/15 our materiality for the Pension Fund is £20 million.

We have not identified any significant audit differences that need to be reported to the Pensions Committee.

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### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in June 2015

Materiality for the Pension Fund was set at £20 million which equates to around 1.8 percent of gross assets. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Pensions Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Pensions Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with

governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1 million.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pensions Committee to assist it in fulfilling its governance responsibilities.

## Appendix 4: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

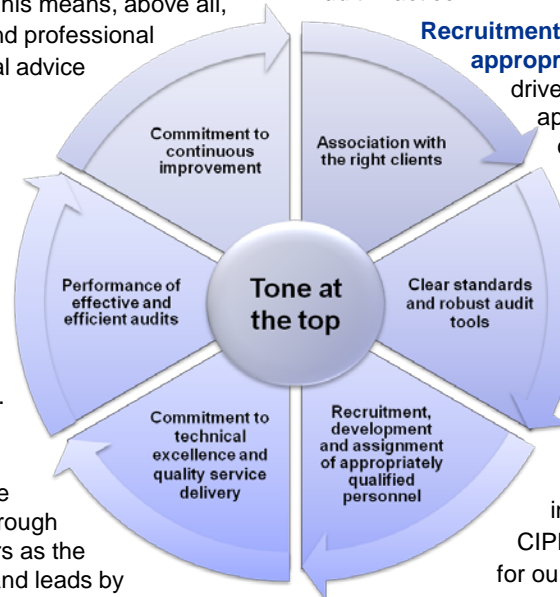
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Andrew Sayers as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

### **Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### **Our quality review results**

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).


The latest Annual Regulatory Compliance and Quality Report issued June 2015 showed that we are meeting the overall audit quality and regulatory compliance requirements.



*cutting through complexity™*

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Non-Executive Report of the:  <b>Audit Committee</b>  <b>08 December 2015</b>	
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b>  Unrestricted
<b>Treasury Management Activities Report for Quarter Ending 31 October 2015</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment & Treasury Manager
<b>Wards affected</b>	All wards

**Summary**

This report advises the Committee of the Council’s borrowing and investment activities during 2015/16 to 31 October 2015. The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2015/16 were approved by the Council on 25 February 2015 as required by the Local Government Act 2003.

The report also provides information on the economic conditions prevailing in the period ending 31 October 2015.

The Council earned an average return of 0.77% on its lending, outperforming the actual rolling average 7 day LIBID rate of 0.36%.

No long-term or short-term borrowing has been raised since the commencement of this financial year 2015/16 to reporting period.

Over the reporting period, all treasury management activities have been carried out in accordance with the approved limits and the prudential indicators set out in the Council’s Treasury Management Strategy statement.

**Recommendations:**

Members of the Audit Committee are recommended to:

- note the contents of the treasury management activities and performance against targets for quarter ending 31 October 2015
- note the Council’s outstanding investments as set out in Appendix 1. The balance outstanding as at 31 October 2015 was £422.7m which includes £48.8m, pension fund cash awaiting investment.

## **1. REASONS FOR THE DECISIONS**

- 1.1 This report updates on both the borrowing and investment decisions made by the Director of Resources under delegated authority in the context of prevailing economic conditions and considers Treasury Management performance measured against the benchmark 7 day LIBID rate.
- 1.2 Treasury management is defined as “the management of the council’s investments and cash flows; its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.3 Legislation requires that regular reports be submitted to Council/Committee detailing the council’s treasury management activities.
- 1.4 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on implementation of investment strategy as approved by Full Council.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities.
- 2.2 If the Council were to deviate from those requirements, there would need to be 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.
- 2.3 Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

## **3. DETAILS OF REPORT**

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

### **TREASURY MANAGEMENT STRATEGY 2015/16**

- 3.3.1 The Council’s Treasury Management Strategy was approved on 25 February 2015 by Full Council. The Strategy comprehensively outlines how the treasury function would operate throughout the financial year 2015/16 including the limits and criteria for selecting institutions to be used for the

investment of surplus cash and the council's policy on long-term borrowing and limits on debt.

3.3.2 The Council complied with the strategy from the onset to reporting period, 31 October 2015. And all investments were made to counterparties within the Council's approved lending list.

3.3.3 The Pension Fund cash awaiting investment has been invested in accordance with Council's Treasury Management Strategy agreed by Full council on the 25 February 2015, under the delegated authority of the Corporate Director of Resources and is being managed in-line with the agreed parameters. The Pensions Committee is updated on Pension Fund investment activity on a quarterly basis.

### **3.4 ECONOMIC COMMENTARY**

3.4.1 Economic forecasting remains difficult with so many external influences weighing on the UK. The Council's Treasury adviser Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

3.4.2 The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

3.4.3 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

3.4.4 However, the overall balance of risks to their Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

3.4.5 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.

- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

3.4.6 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

### 3.5 INTEREST RATE FORECAST

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

Capita Asset Services Interest Rate View														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB View	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB View	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

3.5.2 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

3.5.3 The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over

recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

### **3.6 INVESTMENT STRATEGY**

3.6.1 The Treasury Management Strategy Statement (TMSS) for 2014/15, which includes the Annual Investment Strategy, it outlines the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

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

3.6.3 The approved limits within the Annual Investment Strategy were not breached during the financial year to period ended 31st October 2015.

3.6.4 Investment returns are likely to remain relatively low during for the rest of 2015/16 and beyond.

3.6.5 Borrowing interest rates have been highly volatile during 2015 as alternating spells of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels, so far this year. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when the Council will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

3.6.6 There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.6.7 As illustrated below, the Council outperformed the benchmark of 36bps by 41bps for financial year to date. The Council's budgeted investment return for 2015/16 as £2.45m at 0.70% for average cash balance of £350m, and performance for the year to 31 October 2015 is 0.77%. In money terms the average cash balance of over £400m earned interest of roughly £2m to date if average cash balance and investment returns is maintain at this rate, there would be an outperformance above budget of £750k at year end.

3.6.8 Investment rates available in the market have been broadly stable during the period and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. The average level of funds available for investment purposes during the reporting period was £422.7m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

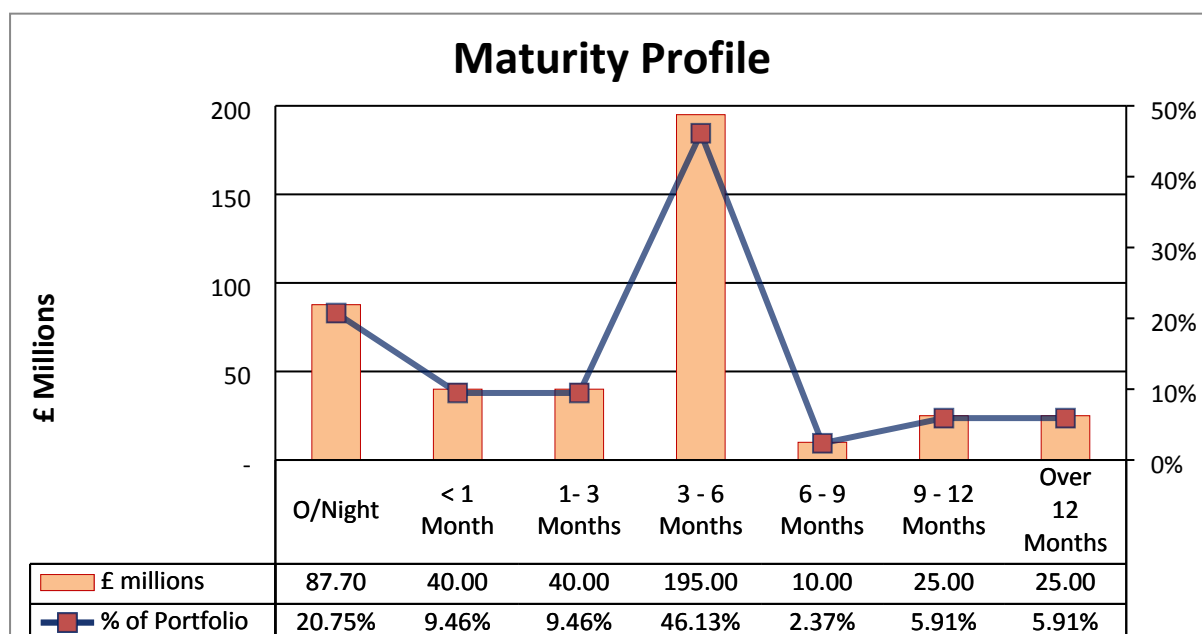
**Investment performance for financial year to 31st October 2015**

Benchmark	Benchmark Return	LBTH Performance	Over/(Under) Performance
Full Year 2014/2015	0.35%	0.73%	0.38%
Quarter 1 (Apr-Jun)	0.36%	0.76%	0.40%
Quarter 2 (Jul-Sep)	0.36%	0.78%	0.42%
Oct 2015	0.36%	0.78%	0.42%
Year (15/16) to Date	0.36%	0.77%	0.41%

**3.7 Investments Outstanding & Maturity Structure**

3.7.1 Chart below illustrates the maturity structure of deposits as at 31 October 2015; we have £87.7m as overnight deposits, and this is basically all Money Market Funds.

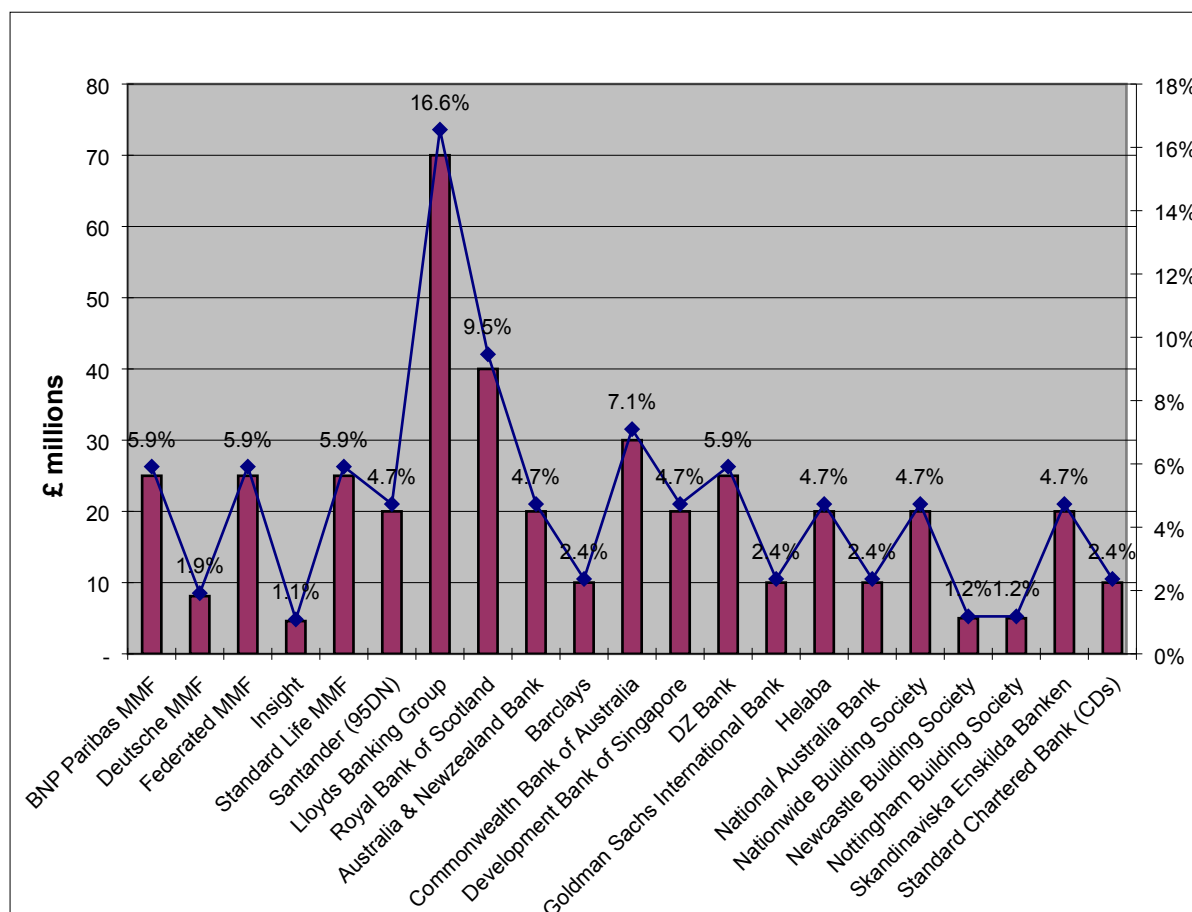
**Maturity of Investment Portfolio as at 31 October 2015**



3.7.2 The Weighted Average Maturity (WAM) for outstanding investment (excluding MMF) is 166 days (176 days for the month of September). This is the average number of outstanding days to maturity of each deal from 31 October 2015.

3.7.3 The outstanding investments of £422.7m include Pension Fund surplus cash of some £48.8m which is being invested and will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Corporate Director of Resources to manage within agreed parameters. £45m of this surplus cash will transfer to a fund manager by December 2015.

**Counterparty Exposure as at 31 October 2015**



3.7.4 Chart above shows the deposits outstanding with authorised counterparties as at 31st October 2015, of which 9.5% were with part-nationalised banks (RBS Groups).

**3.8 DEBT PORTFOLIO**

3.8.1 The Council's Treasury Management Strategy Report approved in February 2015 outlined the Council's long term borrowing strategy for the year.

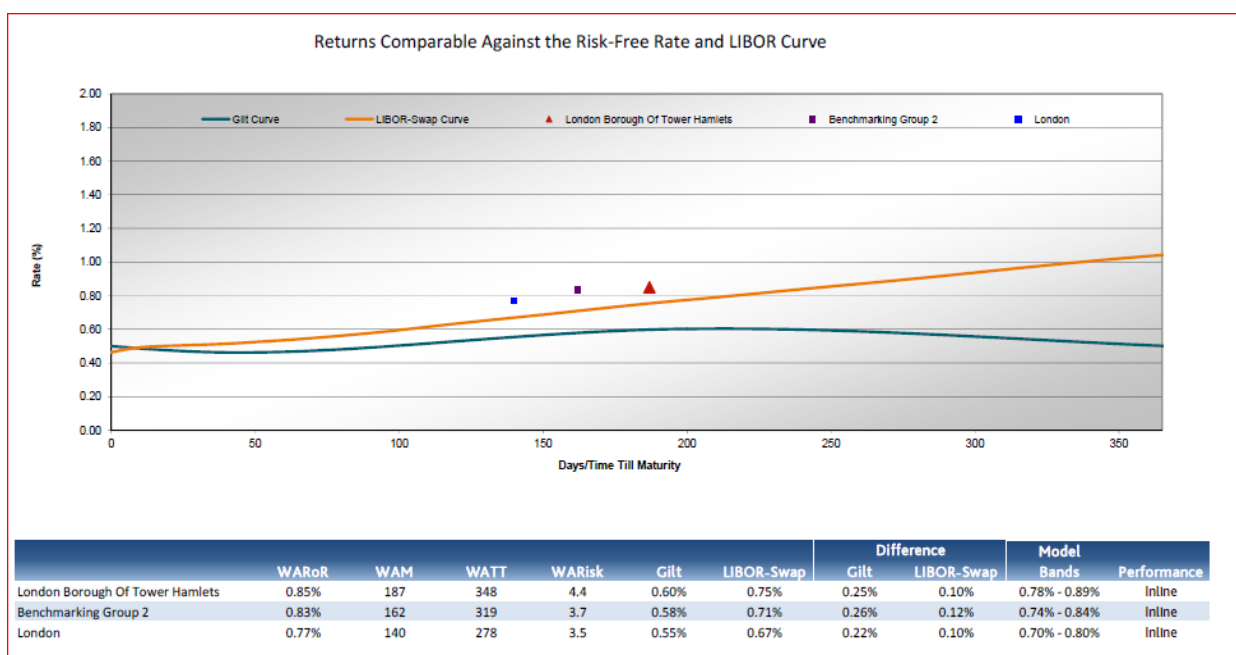
3.8.2 The table below sets out the Council's debt as at the beginning of the financial year and as at 31 October 2015. The overall debt fell by £0.257m from £88.893m at the start of the year. Total debt outstanding, stands at £88.636m, against estimated CFR of £228.877m for 2015/16, resulting in an under-borrowing of £140.241m

	31 March 2015 Principal	Loans raised	Loans repaid	31 October 2015 Principal
	£'000	£'000	£'000	£'000
<b>Fixed Rate Funding:</b>				
-PWLB	11,393	-	0.257	11,136
-Market	13,000	-	-	13,000
<b>Total Fixed Rate Funding</b>	<b>24,393</b>		<b>0.257</b>	<b>24,136</b>
<b>Variable Rate Funding:</b>				
-PWLB	-	-		-
-Market	64,500	-	-	64,500
<b>Total Variable Rate Funding</b>	<b>64,500</b>			<b>64,500</b>
<b>Total Debt</b>	<b>88,893</b>		<b>0.257</b>	<b>88,636</b>
<b>CFR</b>	<b>227,517</b>			<b>228,877</b>
<b>Over/ (under) borrowing</b>	<b>(138,624)</b>			<b>(140,241)</b>

3.8.3 No borrowing has been undertaken in this financial year to date. Also no debt rescheduling opportunities have arisen during this financial year to reporting period as the cost of premiums outweighs savings that could be made from the lower PWLB borrowing rates.

### 3.9 INVESTMENT BENCHMARKING CLUB

3.9.1 LBTH participates in a benchmarking club to enable officers to compare the Council's treasury management /investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 30 September 2015. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 20 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.





3.9.2 The weighted average rate of return (WARoR) for Tower Hamlets is 0.85% compared to 0.83% for the group. The return on LBTH investment is commensurate with the Council's risk appetite as set out in the Investment Strategy.

### **3.10 INVESTMENT STRATEGY UPDATE**

3.10.1 Full Council approved the Investment Strategy on 25 February 2015. Officers continue to look for ways to maximise returns on cash balances within the constraints of the Investment Strategy. The Investment Strategy was developed based on prevailing economic and market outlooks.

3.10.2 Wholly or partly owned government banks offer significantly higher rates than the DMO, but have similar levels of security based on government guarantee of their credit quality. The Council already relies on this guarantee and invests with these banks, and the strategy is to have £70m money limit for each group with an aggregate of 40% of the overall investment portfolio. This should ensure that the Council continues to receive good returns on its cash balances and that the investment strategy is optimised to support the Council's efficiency programme.

3.10.3 The Council's treasury adviser - Capita has removed Lloyds group from part nationalised classification as the Government stakes have been reduced to less than 15%. However based on Lloyds banking group current credit ratings the monetary and time limits that applied to this establishment based on the Council credit worthiness policy are a monetary limit of £20m and a maximum time limit of 6 months.

3.10.4 The Council currently has £70m of investment outstanding with the group, as listed below:

Amount	Maturity	Amount	Maturity
£5m	Nov-15	£15m	Mar-16
£5m	Dec-15	£35m	Apr-16
£5m	Feb-15	£5m	Aug-16

3.10.5 The above investments were undertaken prior to this change, that is, they were transacted when the bank met the Council's treasury adviser criteria for classifying the bank as a part nationalised bank.

3.10.6 No more transactions are being carried out with the group. All deposits are less than one year to maturity; these investments would now be managed down to the Council's monetary and time limits for the institution, which is currently £20m for 6 months. Therefore the strategy is let all outstanding investments with this group run to maturity with no renewals of deals.

## **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

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

## **5. LEGAL COMMENTS**

- 5.1 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.
- 5.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.
- 5.3 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.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

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

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

- 7.1 Assessment of value for money is achieved through:
- Monitoring against benchmarks
  - Operating within budget
- 7.2 For example, investment returns exceeded the LIBID benchmark up to October 2015 and the treasury function operated within budget year to reporting period.

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

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

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 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.

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

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

### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix 1 - Investments Outstanding as at 31st October 15.

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

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

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

- Capita Asset Services:
  - Benchmarking Report September 2015

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

- Bola Tobun Ext. 4733
- Mulberry Place, 3rd Floor.

**Appendix 1**  
**Investments Outstanding as at 31 October 2015**

<b>Time to Maturity</b>	<b>Counterparty</b>	<b>From</b>	<b>Maturity</b>	<b>Amount £m</b>	<b>Rate</b>
<b>Overnight</b>	BNP Paribas MMF		<b>MMF</b>	25.00	
	Deutsche MMF		<b>MMF</b>	8.10	
	Federated MMF		<b>MMF</b>	25.00	
	Insight		<b>MMF</b>	4.60	
	Standard Life MMF		<b>MMF</b>	25.00	
	<b>SUB TOTAL</b>			<b>87.70</b>	
<b>&lt; 1 Month</b>	Helaba	12/05/2015	12/11/2015	5.00	0.74%
	Australia & New Zealand Bank	12/08/2015	12/11/2015	10.00	0.54%
	Lloyds Banking Group	13/11/2014	13/11/2015	5.00	1.00%
	DZ Bank	26/08/2015	26/11/2015	5.00	0.55%
	DZ Bank	28/05/2015	30/11/2015	5.00	0.64%
	DZ Bank	29/05/2015	30/11/2015	5.00	0.64%
	DZ Bank	01/06/2015	01/12/2015	5.00	0.64%
<b>1 - 3 Months</b>	Commonwealth Bank of Australia	03/09/2015	03/12/2015	5.00	0.53%
	Skandinaviska Enskilda Banken	03/06/2015	03/12/2015	10.00	0.61%
	Lloyds Banking Group	04/12/2014	04/12/2015	5.00	1.00%
	Australia & New Zealand Bank	12/08/2015	14/12/2015	10.00	0.55%
	Skandinaviska Enskilda Banken	03/07/2015	03/01/2016	5.00	0.64%
	Development Bank of Singapore	07/07/2015	07/01/2016	5.00	0.62%
<b>3 - 6 Months</b>	Santander (95DN)		Call - 95N	20.00	1.10%
	Commonwealth Bank of Australia	03/09/2015	03/02/2016	5.00	0.58%
	Lloyds Banking Group	04/02/2015	04/02/2016	5.00	1.00%
	Development Bank of Singapore	10/08/2015	10/02/2016	10.00	0.61%
	National Australia Bank	16/02/2015	16/02/2016	10.00	0.61% *
	Development Bank of Singapore	17/08/2015	17/02/2016	5.00	0.61%
	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Helaba	26/05/2015	26/02/2016	5.00	0.86%
	Commonwealth Bank of Australia	03/09/2015	03/03/2016	5.00	0.62%
	DZ Bank	26/08/2015	26/02/2015	5.00	0.66%
	Lloyds Banking Group	04/03/2015	04/03/2016	5.00	1.00%
	Lloyds Banking Group	05/03/2015	07/03/2016	10.00	1.00%
	Commonwealth Bank of Australia	14/09/2015	14/03/2016	10.00	0.64%
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%
	Standard Chartered Bank (CDs)	01/04/2015	30/03/2016	10.00	0.86%
	Lloyds Banking Group	07/04/2015	07/04/2016	5.00	1.00%
	Lloyds Banking Group	10/04/2015	08/04/2016	5.00	1.00%
	Lloyds Banking Group	13/04/2015	12/04/2016	5.00	1.00%
	Nationwide Building Society	13/04/2015	12/04/2016	10.00	0.90%
	Lloyds Banking Group	15/04/2015	14/04/2016	5.00	1.00%
	Nationwide Building Society	16/04/2015	15/04/2016	5.00	0.90%
	Barclays	16/04/2015	15/04/2016	10.00	0.92%
	Lloyds Banking Group	17/04/2015	15/04/2016	10.00	1.00%
	Nationwide Building Society	24/04/2015	22/04/2016	5.00	0.90%
	Nottingham Building Society	29/04/2015	28/04/2016	5.00	1.00%
	Newcastle Building Society	29/04/2015	28/04/2016	5.00	1.10%
	Lloyds Banking Group	29/04/2015	29/04/2016	5.00	1.00%
<b>6 - 9 Months</b>	Helaba	01/05/2015	03/05/2016	10.00	0.94%
<b>9 - 12 Months</b>	Commonwealth Bank of Australia	05/08/2015	05/08/2016	5.00	0.84%
	Lloyds Banking Group	13/08/2015	12/08/2016	5.00	1.00%


<b>Time to Maturity</b>	<b>Counterparty</b>	<b>From</b>	<b>Maturity</b>	<b>Amount £m</b>	<b>Rate</b>
	Skandinaviska Enskilda Banken	05/10/2015	05/10/2016	5.00	0.92%
	Goldman Sachs International Bank	23/10/2015	24/10/2016	10.00	1.00%
<b>&gt; 12 Months</b>	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	Royal Bank of Scotland	05/05/2015	05/05/2017	5.00	1.420% **
	Royal Bank of Scotland	08/05/2015	08/05/2017	5.00	1.420% **
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20% *
	Royal Bank of Scotland	30/04/2015	30/04/2018	5.00	0.90% *
	<b>SUB TOTAL</b>			<b>335.00</b>	
	<b>TOTAL</b>			<b>422.70</b>	

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

\*\* This is certificate of Deposits

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# Agenda Item 4.8

Non-Executive Report of the:  <b>AUDIT COMMITTEE</b> 8 <sup>th</sup> December 2015	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b> Unrestricted
<b>Mid - Year Review For Treasury Management and Investment Strategy 2015/16</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment & Treasury Manager
<b>Wards affected</b>	All wards

## Summary

This report reviews progress on the Treasury Management and Investment Strategy that was approved by Full Council on 25 February 2015 as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (Revised 2011).

The report reviews how the Treasury Management team has managed the Council's cash balances, investments, borrowings and treasury related risks. The report also sets out the economic environment and how this has impacted on investment returns.

The key messages from this report are that:

- All treasury management activities were executed by authorised officers within the parameters agreed by the Council.
- All investments were made to counterparties on the Council's approved lending list and within agreed limits.
- There was no long-term borrowing raised during the period to 30 September 2015.
- The existing long-term debt reduced to £88.661m following a PWLB maturity of £231k for the financial year to 30 September 2015.
- The Council earned an average investment return of 0.76% on short term lending, outperforming the rolling average 7 Day LIBID rate of 0.35%.

## Recommendations

The Audit Committee is asked to recommend the report to the Council to:

- Note the Treasury Management activities and performance against targets for the six months to 30 September 2015.
- Note the current development and update for MiFID II Impact on LGPS and Local Authorities and also Changes in credit rating methodology as set out in section 4.
- Note the Council's investment balance of £421.3m as at 30 September 2015 of which £40m was invested in other Local Authorities (set out in Appendix 1).
- Note the Council's position on prudential indicators (set out in Appendix 6).

## **1. REASONS FOR DECISIONS**

- 1.1 The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 requires that regular reports be submitted to Council/Committee detailing the council's treasury management activities.
- 1.2 The Council also agreed as part of the Treasury Management Strategy Statement to receive a number of reports. Furthermore, the CIPFA Treasury Management Code of Practice requires that Full Council/Committee should receive a Mid-Year Report reviewing Treasury Management/Investment.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Council is bound by legislation to have regard to the CIPFA Treasury Management (TM) Code. The Code requires that the Council should receive a mid-year report reviewing treasury management and investment.
- 2.2 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

## **3. DETAILS OF REPORT**

- 3.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) has been adopted by the Council.
- 3.2 One of the requirements of the Code is that Full Council/Committee should receive an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-Year Review Report and an Annual Outturn Report (stewardship report) covering activities during the previous year.
- 3.3 The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Full Council on 25 February 2015. The 2014/15 Outturn report was approved by Full Council on 16 September 2015.
- 3.4 This mid - year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
  - An economic update for the first six months of 2015/16.
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy, which constitutes the following:
    - The Council's borrowing strategy for 2015/16.
    - The Council's investment strategy for 2015/16.
    - The Council's investment portfolio for 2015/16.
    - The Council's capital expenditure (prudential indicators).
    - A review of compliance with Treasury and Prudential Limits for 2015/16.



### **3.5 AN ECONOMIC UPDATE FOR THE FIRST SIX MONTHS OF 2015/16**

- 3.5.1 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.
- 3.5.2 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.
- 3.5.3 There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.
- 3.5.4 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for

September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

- 3.5.5 In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

### 3.6. INTEREST RATE FORECASTS

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

- 3.6.1 Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.
- 3.6.2 Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

- 3.6.3 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.
- 3.6.4 The disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.
- 3.6.5 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
- a. Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
  - b. UK economic growth turns significantly weaker than currently anticipate.
  - c. Weak growth or recession in the UK's main trading partners - the EU, US and China.
  - d. A resurgence of the Eurozone sovereign debt crisis.
  - e. Recapitalisation of European banks requiring more government financial support.
  - f. Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- i. Uncertainty around the risk of a UK exit from the EU.
- ii. The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.
- iii. The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- iv. UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

### 3.7 **TREASURY MANAGEMENT STRATEGY STATEMENT**

3.7.1 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by the Council on 25 February 2015, and it comprised the following:

- Borrowing Strategy
- Minimum Revenue Provision
- Annual Investment Strategy
- Treasury Management Policy statement; and
- Prudential Indicators for Treasury Management

3.7.2 All the Council's treasury activities have been carried out within this strategy framework.

#### **Borrowing Strategy**

3.7.3 The Council's approved borrowing strategy is set out at Appendix 1. The strategy remains appropriate to meet the Council's financing needs for its capital programme and loan redemptions.

#### **Debt Portfolio**

	31 March 2015 Principal £'000	Average rate %	30 September 2015 Principal £'000	Average rate %
Fixed Rate Funding:				
-PWLB	11,393	7.32	11,161	7.26
-Market	13,000	4.37	13,000	4.37
<b>Total Fixed Rate Funding</b>	<b>24,393</b>	<b>5.75</b>	<b>24,161</b>	<b>5.71</b>
Variable Rate Funding:				
-PWLB	-		-	
-Market	64,500	4.32	64,500	4.32
<b>Total Variable Rate Funding</b>	<b>64,500</b>	<b>4.32</b>	<b>64,500</b>	<b>4.32</b>
<b>Total debt</b>	<b>88,893</b>	<b>4.71</b>	<b>88,661</b>	<b>4.70</b>
<b>CFR</b>	<b>227,517</b>		<b>228,877</b>	
<b>Over/ (under) borrowing</b>	<b>(138,624)</b>		<b>(140,216)</b>	

3.7.4 The table above sets out the Council's debt as at the beginning of the year and 30 September 2015.

3.7.5 As at the 30 September 2015, £231k of General Fund PWLB (Public Works Loans Board) debt had been repaid. The maturity profile of the external borrowing portfolio as at the 30 September 2015 is shown at Appendix 1.

3.7.6 **Borrowing Requirement:** The Council has an approved borrowing requirement of £11 million towards financing the 2014/15 and 2015/16 Capital Programme and to provide for loan redemptions and replacement. As part of the Council's capital programme £159.9million of capital grants and contributions have also been earmarked to resource internally funded capital schemes.

3.7.7 Over the next three years, forecasts indicate that investment rates are expected to be below long term borrowing rates. This would indicate that value could best be obtained by avoiding new external borrowing and by

using internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term savings.

3.7.8 Hence, there has been no new borrowing during the period 01 April 2015 to 30 September 2015. Total debt outstanding, stands at £88.661m, against estimated CFR of £228.877m for 2015/16, resulting in an under-borrowing of £140.216m

3.7.9 **Debt Rescheduling:** The debt portfolio is periodically reviewed to see if cashflow benefits can be obtained from rescheduling debt. In the current interest rate environment, PWLB repayment rates are generally not favourable and any rescheduling undertaken would incur a large cash penalty payment, thus limiting opportunities. The portfolio will be kept under review and advice sought from Capita Asset Services as appropriate.

3.7.10 No debt rescheduling was undertaken during the first six months of 2015/16.

### 3.8 Minimum Revenue Provision

3.8.1 The Council has a statutory requirement to repay an element of accumulated General Fund capital expenditure each year through a revenue charge known as the Minimum Revenue Provision (MRP). The Council is required to approve each year a Minimum Revenue Provision Policy Statement and make prudent provision. Revenue Provision to repay General Fund capital expenditure debt in 2015/16 is £6.2 million and has been calculated in accordance with the policy statement.

3.8.2 With regard to assets financed under the Public Finance Initiative (PFI) and finance leases that were brought on balance sheet as a result of the accounting changes brought about by the requirement to report in accordance with International Financial Reporting Standards, mitigating regulations allow that MRP be contained within the existing revenue charge so that the effect on the General Fund is neutral. The approved Minimum Revenue Provision Policy Statement for 2015/16 is set out at Appendix 2.

### 3.9 Annual Investment Strategy.

3.9.1 The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity; and
- Yield

3.9.2 **Security:** The Council has in place creditworthiness criteria, which the officers had strictly adhered to when making investment decisions during the first six months of 2015/16. Monetary and Capita duration limits are applied to manage counterparty exposure risk. Global markets have remained uncertain and the Council continues to implement an operational investment strategy which tightens the controls already in place within the approved investment strategy. Investment processes are constantly monitored and are regularly reviewed by Investment and Treasury Manager, Chief Accountant and the Corporate Director of Resources.

- 3.9.3 **Liquidity:** The Council is required to have available, or have access to, adequate resources to enable it at all times to have the level of funds which are necessary for the achievement of its service objectives. Cashflow modelling is used to meet this requirement. The liquidity of the investment portfolio is monitored regularly.
- 3.9.4 For debt management purposes the Council has in place overdraft facilities with the Council's bankers The Cooperative Bank plc, and has access to the PWLB and the money market to fund capital projects. Internal balances are available to temporarily fund capital expenditure. Whilst this will help reduce the need to invest any surplus cash, this must be balanced against the future requirement to replace these balances, and ensure that sufficient cash is available to meet the Council's liquidity requirements.
- 3.9.5 **Yield:** The Council has a good record in managing its investment portfolio and seeks to obtain the best return (yield) available on its investments, but it adheres at all times to the approved investment criteria. The Council compares the return on its investments against the seven day London Interbank Bid (LIBID) rate. Despite the challenging investment environment, as at 30 September 2015 the return on the Council's investments was 0.76%, which compares very favourably against the seven day LIBID rate of 0.35%, which is local authority benchmark.
- 3.9.6 Officers will continue to work to maintain and strengthen the Council's investment policy and will refer back to Council with any modification thought to be beneficial to the efficient and effective management of the Council's funds.
- 3.9.7 Credit rating information is supplied by Capita Asset Services, our treasury advisers, on all active counterparties that comply with the criteria as shown at table 1 of Appendix 3. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any credit rate changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.
- 3.9.8 The Council will lend to the UK Government and its banking sector and to overseas banks from countries with a AAA sovereign rating from Fitch and other credit reference agencies.
- 3.9.9 The Council uses Fitch ratings (or equivalent from other agencies if Fitch does not provide a rating) to derive its counterparty criteria, but takes into consideration ratings from all three main credit ratings providers when compiling its counterparty list. The Council takes an overall view on its counterparties so that an organisation could be removed from the list if the predominant view of the organisation is pessimistic. Where the overall view of the three main ratings agency is pessimistic, the Council is likely to adopt the most pessimistic of the available ratings.
- 3.9.10 A key issue that faces the efficient and effective management of the Council's cash portfolio currently is that of counterparty availability. The Councils have deposit of £110m outstanding with the part nationalised banking groups and the challenge ahead will be to address the decline in the Government holding

in Lloyds Banking Group and the impact that this could have on the counterparty limit that the Council currently applies to this entity.

- 3.9.11 Capita has removed Lloyds group from part nationalised classification as the Government stakes have been reduced to less than 15%. However based on Lloyds banking group current credit ratings the monetary and time limits that applied to this establishment based on the Council credit worthiness policy are a **monetary limit of £20m** and a maximum **time limit of 6 months**. The Council currently has £70m of investment outstanding with the group, as listed below:

Amount	Maturity	Amount	Maturity
£5m	Nov-15	£15m	Mar-16
£5m	Dec-15	£35m	Apr-16
£5m	Feb-15	£5m	Aug-16

- 3.9.12 The above investments were undertaken prior to this change, that is, they were transacted when the bank met the Council's treasury adviser criteria for classifying the bank as a part nationalised bank. No more transactions are being carried out with the group. All deposits are less than one year to maturity; these investments would now be managed down to the Council's current monetary and time limits for the institution.
- 3.9.13 Investments and borrowing during the first six months of the year have been in line with the Strategy, with no deviations.

### 3.10 **INVESTMENT PORTFOLIO 2015/16**

- 3.10.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach including sovereign credit rating.
- 3.10.2 Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. The level of funds available for investment purposes during the year has been fluctuating between £350m £480m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

3.10.3 The Council's budgeted investment return for 2015/16 was £2.45m, with average rate of return 0.7% for average portfolio balances of £350m.

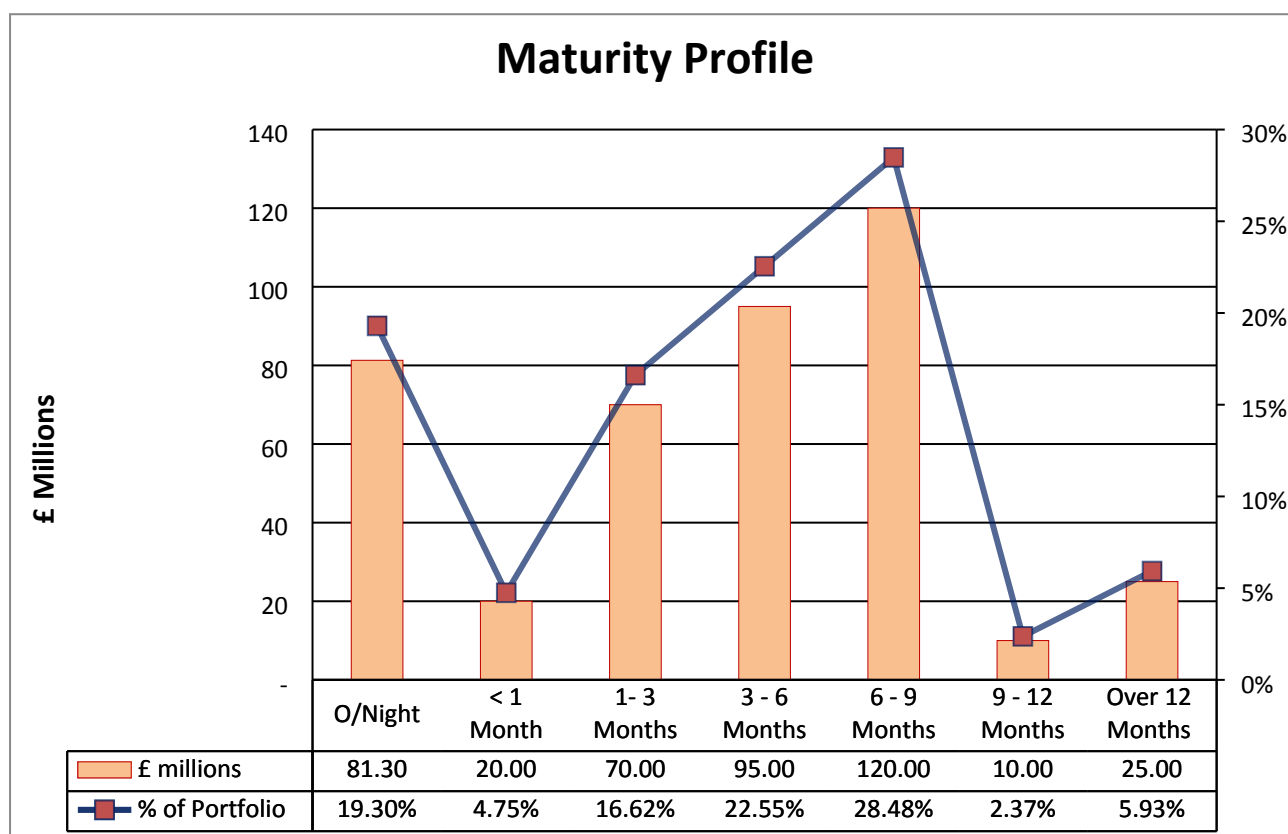
Benchmark	Council Performance	Investment Interest Earned as at 30 Sept 2015
0.35%	0.76%	£1.8m

3.10.4 As illustrated, the council outperformed the benchmark by 36 bps. The investment interest earned as at 30<sup>th</sup> September was £1.8m; this was due to the large investment portfolio balances the Council is currently running with, the average investment portfolio balance of £446m as at 30<sup>th</sup> September 2015.

3.10.5 It has also not been possible to re-invest matured investments at favourably rates due to the low interest rate environment.

3.10.6 The above chart illustrates the maturity structure of deposits as at 30<sup>th</sup> September 2015 with a detailed list of current investments attached as Appendix 5 of this report.

### Maturity Structure of Investments



3.10.7 The council held £421.3m of investments as at 30 September 2015 (£292.45m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.76% against a benchmark of 0.35%.

3.10.8 The outstanding investments of £421.3m include Pension Fund surplus cash of some £48.8m which is being invested and will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Corporate Director of Resources



to manage within agreed parameters. £45m of this surplus cash will transfer to a fund manager by December 2015.

3.10.9 At the end of September, we have 19.3% of outstanding investments of £421.3m as overnight money and 21.4% maturing within 1-3 months, 22.6% maturing within 3-6 months, 28.5% maturing within 6-9 months, 2.4% maturing within 9-12 months and 6% to mature after 12months.

3.10.10 The Weighted Average Time to Maturity for outstanding investment portfolio is 176 days. This is the average time, in days, from reporting date until the portfolio matures, weighted by principal amount.

### 3.11 **The Council's Capital Position (Prudential Indicators)**

3.11.1 Prudential Indicator for Capital Expenditure - This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at February Council. The programme has been revised to take account of updated profiles; new schemes approved in-year and new capital grant receipts.

<b>Capital Expenditure by Service</b>	<b>2015/16 Original Estimate £m</b>	<b>2015/16 Revised Estimate £m</b>
<i>Adult Services</i>	3.793	0.411
<i>Children's services</i>	22.611	13.872
<i>Building Schools for the Future</i>	0.223	1.014
<i>Communities, Localities and Culture</i>	14.560	14.094
<i>Development &amp; Renewal (Excluding HRA)</i>	3.230	3.352
<i>Housing</i>	5.991	125.780
<i>Corporate General Fund Provision for Schemes under development</i>	12.000	2.504
Total Non - HRA	50.408	37.472
HRA	121.564	123.556
<b>Total</b>	<b>171.972</b>	<b>161.028</b>

### 3.11.2 **Changes to the Financing of the Capital Programme**

The table below draws together the main strategic elements of the capital expenditure plans, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

<b>Capital Expenditure</b>	<b>2015/16 Original Estimate £m</b>	<b>2015/16 Revised Estimate £m</b>
<b>Total Spend</b>	<b>171.972</b>	<b>161.028</b>
Financed By:		

Capital receipts	10.159	12.724
Capital Grants, Developers & SC	84.756	118.326
Major Repairs Allowance	31.810	24.038
Capital Reserves	2.150	2.280
Revenue	10.258	2.299
<b>Total Financing</b>	<b>151.658</b>	<b>159.667</b>
Supported	0.000	0.000
Unsupported	32.839	1.361
<b>Total Borrowing Need</b>	<b>32.839</b>	<b>1.361</b>

3.11.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary are detailed in the below table. The Capital Financing Requirement has been amended in line with the borrowing requirement to support the 2015/16 approved capital programme.

	<b>2014/15 Actual £m</b>	<b>2015/16 Original Estimate £m</b>	<b>2015/16 Revised Estimate £m</b>
<b>Prudential Indicator – Capital Financing Requirement</b>			
CFR – Non-HRA	157.842	168.877	157.841
CFR – HRA	69.675	91.479	71.036
Total CFR	227.517	260.356	228.036
<b>Net movement in CFR</b>		<b>32.839</b>	<b>1.360</b>
<b>Prudential Indicator – External Debt / the Operational Boundary</b>			
Borrowing	206.310	285.356	253.877
Other long term liabilities	39.410	38.472	38.472
<b>Total debt 31 March</b>	<b>245.720</b>	<b>323.828</b>	<b>292.349</b>

### Limits to Borrowing Activity

3.11.4 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	<b>2014/15 Actual</b>	<b>2015/16 Original Estimate</b>	<b>2015/16 Revised Estimate</b>

	£m	£m	£m
Gross borrowing	128.365	162.789	127.117
Less investments	385.900	300.000	300.000
Net borrowing / (Investments)	(257.535)	(137.211)	(172.883)
<b>CFR (year - end position)</b>	<b>227.517</b>	<b>260.356</b>	<b>228.877</b>

3.11.5 The Corporate Director, Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

3.11.6 A further prudential indicator limits the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and can only be set and revised by Members. It reflects the level of borrowing which though not needed, could be afforded in the short term but unsustainable long term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

	2015/16 Original Indicator	2015/16 Revised Indicator
<b>Authorised limit for external debt</b>		
Borrowing*	323.828	292.349
Headroom	20.000	20.000
Other long term liabilities	0.000	0.000
<b>Total</b>	<b>343.828</b>	<b>312.349</b>

\* Includes PFI schemes and finance leases etc.

## 4 Current Development and Update

### 4.1 The Impact of Markets in Financial Instruments Derivatives (MIFID II)

4.1.1 The first Markets in Financial Instruments Directive (MiFID) was adopted in April 2004 and came into force in November 2007. Its aim was to improve the competitiveness of EU financial markets by creating a single market for investment services and activities, and ensuring a high degree of harmonised protection for investors in financial instruments, such as shares, bonds, derivatives and various structured products. Under the current regulations LGPS funds are classified as professional investors enabling them to undertake transactions in a wide range of investments including complex ones such as hedge funds, private equity and property.

4.1.2 MiFID II is a wide-ranging EU regulation designed to improve investor protection and make financial markets safer and more transparent. It replaces MiFID and comes into effect on 3 January 2017 for all investment firms. It imposes more stringent transaction reporting and fee and charges disclosure rules on investment managers, and enforces better product governance to ensure that products are only sold to suitable investors. Retail investors can buy investments traded on public markets. But restrictions apply to complex and sophisticated investments, including those covered under the Alternative

Investment Fund Managers directive (AIFMD), which includes hedge funds, private equity, property, and commodities. Under MiFID II local authorities will be classified as retail investors.

- 4.1.3 Under MiFID II, all financial services firms such as banks, brokers, advisers and fund managers will have to treat Local Authorities (LA) and Local Government Pension Scheme (LGPS) funds in the same way they do individuals and small businesses. That includes ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. Whilst recognising that this is appropriate for retail investors it also involves lots more documentation and administration for both the firm and the client, to prove to the regulator that all the steps have been taken, and as evidence in case of alleged mis-selling. Further under MiFID II, asset managers are not allowed to sell investments such as hedge funds, property and private equity to retail clients because of their complex nature.
- 4.1.4 LGPS Funds and LA will be able to go through an election process to be upgraded to professional clients but it will take time and will be onerous as they will have to prove to each asset manager that they meet the strict qualitative and quantitative criteria. These include showing the requisite experience, expertise and knowledge so the funds are capable of making their own investment decisions. Although managers carry the regulatory risk, it is the funds that will have to collate the information to prove they are professional clients.
- 4.1.5 The qualitative criteria under MiFID II are that Funds will have to demonstrate an 'adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved' This assessment 'should be performed in relation to the person authorised to carry out transactions on its behalf.'
- 4.1.6 The quantitative criteria - (2 of the following 3 must be satisfied):
- the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
  - the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000;
  - the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.
- 4.1.7 The Local Government Association (LGA), DCLG, the Investment Association along with LGPS Funds are currently lobbying the Financial Conduct Authority to try to find ways of lessening the impact on local authorities and in particular LGPS Funds of the new European Directive. In addition it is hoped that transition arrangements can be put in place to ensure that Funds aren't forced into a fire-sale of current holdings once the directive comes into force in

January 2017. A copy of the LGA paper issued to raise awareness of the issue to local authorities is attached as an appendix to this report for information. It is anticipated that the FCA will issue a consultation on the introduction of MiFID II and its impact on local authorities in early 2016. The FCA also presented to the London CIV Sectoral Joint Committee, which the Vice Chair of Pensions Committee attends outlining the issues for the Committee. A copy of the presentation given to the CIV is attached for information and sets out clearly the timeline of the introduction of the Directive and the issues arising.

- 4.1.8 With the move to pooling of local authority investments, the introduction of MiFID II could impact on how some of these vehicles are set up and the status that they would attract. The London CIV which the London Borough of Tower Hamlets Pension Fund has supported will meet the criteria of a professional investor given its FCA status as an authorised contractual scheme. However, whilst the London CIV will be classified as a Professional Investor it is unclear at this stage whether the CIV will have to undertake the same level of due diligence with its LGPS clients as a fund manager would do. In addition it is unclear whether some of the structure which could be put forward under the pooling consultation by LGPS funds would fall into the classification of professional investors.
- 4.1.9 At this stage the contents of this report are for information only, but to make the Audit Committee aware of the potential ramifications of the new EU directive and to note that this could have an impact on the Council's treasury function.

## **4.2 Changes in Credit Rating Methodology**

- 4.2.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.
- 4.2.2 In keeping with the agencies' new methodologies, the credit element of the Council's treasury adviser credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings.
- 4.2.3 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected

changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks.

- 4.2.4 Banks are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the “support” phase of the financial crisis.

## **5. COMMENTS OF THE CHIEF FINANCE OFFICER**

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

## **6. LEGAL COMMENTS**

- 6.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.
- 6.2 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.
- 6.3 It is a key principle of the Treasury Management Code that an authority should put in place “comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities”. Treasury management activities cover the management of the Council’s investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to review performance against the strategies and policies it has adopted.
- 6.4 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 and for the proper stewardship of public funds.

- 6.5 When discharging its treasury management functions, 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. Information is contained in section 15 of the report relevant to these considerations.

## **7. ONE TOWER HAMLETS CONSIDERATIONS**

- 7.1 Interest on the Council's cash flow has historically contributed significantly towards the budget. This Council's ability to deliver its various functions, to meet its Community Plan targets and to do so in accordance with its obligations under the Equality Act 2010 may thus be enhanced by sound treasury management.

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

- 8.1 Assessment of value for money is achieved through:
- Monitoring against benchmarks
  - Operating within budget
- 8.2 For example, investment returns exceeded the LIBID benchmark up to the end of September 2015 and the treasury function operated within budget for financial year 2015/16.

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

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

## **10. RISK MANAGEMENT IMPLICATIONS**

- 10.1 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.

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

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

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

[None]

#### **Appendices**

Appendix 1: Borrowing Strategy 2015/16

Appendix 2: Minimum Revenue Provision Policy Statement 2015/16

Appendix 3: Creditworthiness Policy 2015/16

Appendix 4: Definition of Credit Ratings

Appendix 5: Investment Portfolio as at 30<sup>th</sup> September 2015

Appendix 6: 2015-16 Prudential and Treasury Management Indicators

Appendix 7: Counterparty List

Appendix 8: Glossary

**Local Government Act, 1972 Section 100D (As amended)**  
**List of “Background Papers” used in the preparation of this report**

Capita Treasury Advisory Services - Investment Reports & Benchmarking club report

**Officer contact details for documents:**

Bola Tobun Ext. 4733 Mulberry Place, 3<sup>rd</sup> Floor



## **Appendix 1: BORROWING STRATEGY**

1. The Council will continue to borrow for the following purposes where it is deemed affordable, sustainable and prudent to do so:
  - Financing of Capital Expenditure
  - Repayment of Maturing Debt (net of Minimum Revenue Provision)
  - Short Term Cash Flow Financing
2. The Acting Corporate Director, Resources or in his absence the Service Head, Financial Services, Risk and Accountability under delegated powers will determine the timing, term, type and rate of new borrowing to take into account factors such as:
  - Expected movements in interest rates
  - Current maturity profile
  - The impact of borrowing on the council's Medium Term Financial Plan
  - Approved prudential indicators and limits
3. Officers will continue to monitor interest rate movements closely and adopt a pragmatic approach to changing circumstances. For example, the following potential scenarios would require a reappraisal of strategy:
  - A significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap
  - A significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

### **BORROWING IN ADVANCE OF NEED**

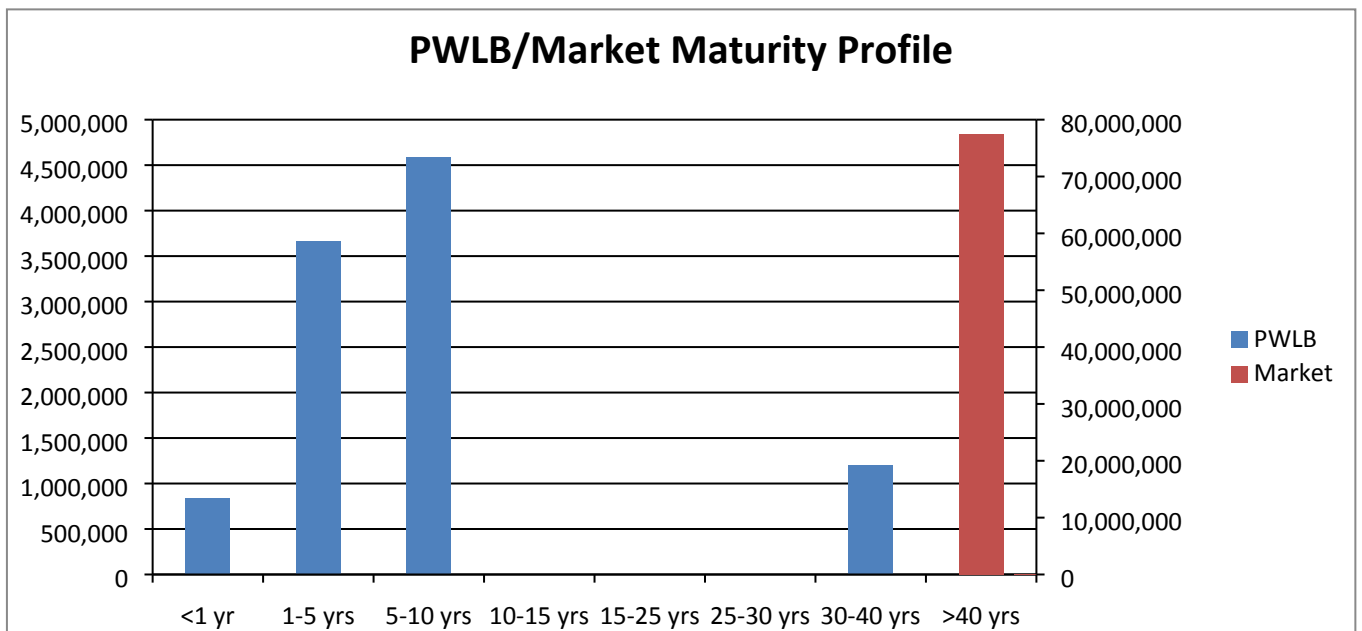
4. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.
5. In determining whether borrowing will be undertaken in advance of need the Council will;
  - ensure that there is a clear link between the capital programme and maturity profile of existing debt portfolio that supports the need to take funding in advance of need
  - ensure the on-going revenue liabilities created, and the implications for the future plans and budgets have been considered

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

**DEBT RESCHEDULING**

6. The Interim Head of Finance - Resources will continue to consider options to reschedule and restructure the Council’s debt portfolio, having due regard for the broad impact of such exercises on the following:
  - The maturity profile – council will only undertake debt restructuring where it benefits the maturity profile
  - On-going revenue savings will be achieved
  - The effect on the HRA
  - The impact of premiums and discounts has been fully considered; and
  - The impact on prudential indicators.
7. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
8. All rescheduling will be reported to the Council, at the earliest meeting following its action.

**The Maturity Profile of External Borrowing as at 30<sup>th</sup> September 2015**



## **Appendix 2: MINIMUM REVENUE PROVISION POLICY STATEMENT**

- 1 The Council is required to provide an annual amount in its revenue budget to provide for the repayment of the debt it has incurred to finance its General Fund capital investment. The calculation of this sum termed the Minimum Revenue Provision (MRP) was previously prescribed by the Government.
- 2 The Department of Communities and Local Government (DCLG) now require Councils to establish a policy statement on the MRP and has published guidance on the four potential methodologies to be adopted.
- 3 The guidance distinguishes between supported borrowing which relates to assumed borrowing which is incorporated into the Governments Formula Grant calculation and consequently has an associated amount of government grant and unsupported borrowing. Unsupported borrowing is essentially prudential borrowing the financing costs of which have to be met by the Council locally.
- 4 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made pending finalisation of transitional arrangements following introduction of Self-Financing.
- 11 The DCLG guidance provides two options for the calculation of the MRP associated with each classes of borrowing.
- 12 The two options for the supported borrowing are variants of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR). The two options are:
  - Option 1 (Regulatory Method): To continue the current statutory calculation based on the gross CFR less a dampening factor to mitigate the impact on revenue budgets of the transition from the previous system. This calculation is further adjusted to repay debt transferred to the Council when the Inner London Education Authority (ILEA) was abolished.
  - Option 2 (Capital Financing Requirement Method): The statutory calculation without the dampener which will increase the annual charge to revenue budget.
- 13 The options purely relate to the timing of debt repayment rather than the gross amounts payable over the term of the loans. The higher MRP payable under option 2 will accelerate the repayment of debt.
- 14 It is recommended that because of budget constraints in the medium term the existing statutory calculation with the ILEA adjustment be adopted as the basis of the Councils MRP relating to supported borrowing.
- 15 The guidance provides two options for the MRP relating to unsupported borrowing. The options are:-
  - Option 3 (Asset Life Method): To repay the borrowing over the estimated life of the asset with the provision calculated on either an equal instalment or annuity basis. This method has

the advantage of simplicity and relating repayments to the period over which the asset is providing benefit.

- Option 4 (Depreciation Method): A calculation based on depreciation. This is extremely complex and there are potential difficulties in changing estimated life and residual values.

16 It is recommended that option 3 is adopted for unsupported borrowing.

17 The Council is required under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England ) (Amendment) Regulations 2003 to determine for each financial year an amount of minimum revenue provision which it considers to be prudent. It is proposed that the Council makes Minimum Revenue Provision using Option 1 (Regulatory Method) for supported borrowing and Option 3 (Asset Life Method) for unsupported borrowing.

### Appendix 3: Creditworthiness Policy

- 1 Credit rating information is supplied by Capita Asset Services, our treasury advisers, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is used to update the Council's counterparty list immediately.
- 2 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
  - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
  - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 3 The Corporate Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used. 4
- 4 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, and the institution will fall outside the lending criteria.
- 5 Credit rating information is supplied by Capita Asset Services, the Council treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. This does not apply to the unrated building societies or banks whereby they are selected based on enhanced credit analysis.
- 6 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:
  - Banks with good credit quality – the Council will only use banks which:
    - i. are UK banks; and/or

- ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAA

And have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

- i. Short Term – 'F1'
- ii. Long Term – 'A'

(N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Bank above.
- The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Unrated/Challengers Banks – The council will use unrated banks with assets in excess of £1.5bn. When investing with such institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.
  - I. The "RAG" framework will be used for Building societies as well as Banks, for the Council to evaluate and compare security and liquidity of investment opportunities.
  - II. The "RAG" (Red, Amber or Green) indicator framework is generally used to identify the strength of a company's financial numbers.
  - III. For example, all the financials there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.
- Building societies - The Council will use all building societies in the UK which:
  - i. Meet the ratings for banks outlined above;
  - ii. Have assets in excess of £1.5bn;  
or meet both criteria.
- Money market funds – AAA
- Enhanced money market funds (EMMFs) – AAA
- Certificates of Deposits
- Corporate Bonds
- Covered Bonds

- UK Government (including gilts, treasury bills and the Debt management Account Deposit Facility, (DMADF))
- Local authorities, parish councils, Police and Fire Authorities
- Supranational institutions

Agency	Long-Term	Short-Term
Fitch	A	F1
Moody's	A2	P-1
Standard & Poor's	A	A-2
Sovereign Rating	AAA	
Money Market Fund	AAA	

7 **Country and Product considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks above. In addition:

- No more than a maximum amount of £75m or 25% of the investments portfolio will be placed with any individual non-UK country with AAA sovereign rating at any time;
- limits in place above will apply to a group of institutions within a non UK country;
- Product limits will be monitored regularly for appropriateness.

8 Use of additional information other than credit ratings – Additional requirements under the Code requires the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information are for example Credit Default Swaps, negative rating watches/outlooks, these will be applied to compare the relative security of differing investment counterparties.

#### **Time and monetary limits applying to investments**

9 **Specified Investments:** It is recommended that the Council should make Specified investment as detailed below, all such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high credit' quality criteria where applicable. The Council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining 'high credit rating' as being F1 Fitch short-term and A long-term credit rating or equivalent Moody's or Standard and Poor's rating.

	<b>Fitch Long term Rating (or equivalent)</b>	<b>Money Limit</b>	<b>Time Limit</b>
Term Deposits (Banks - higher quality)	<i>Short-term F1+, Long-term AA-</i>	£30m	3yrs
Term Deposits (Banks - medium quality)	<i>Short-term F1, Long-term A+</i>	£25m	2yrs
Term Deposits (Banks - lower quality)	<i>Short-term F1, Long-term A</i>	£20m	1yr
Banks - part nationalised (per group)	N/A	£70m	1yr
Council's banker (not meeting lending criteria)	XXX	£25m	1 day
DMADF	N/A	unlimited	6 months
Local authorities	N/A	£20m	1yr
Treasury Bills	Long Term AAA	No Limit	1yr
UK Government Gilts	N/A	No Limit	1yr
Covered Bonds	Long Term AAA	£25m	1yr
Non-UK Government Bonds	Sovereign AAA Long Term AAA	£25m	1yr
Certificates of Deposits	As Term Deposits above	As Term Deposits above	As Term Deposits above
Corporate Bonds	As Term Deposits above	As Term Deposits above	As Term Deposits above
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
	<b>Fund rating</b>	<b>Money Limit (per fund)</b>	<b>Time Limit</b>
Money market funds (Sterling)	AAA	£25m	liquid
Enhanced Cash Funds	AAA/V1	£25m	liquid
Cash Funds	AAA	£25m	liquid
Bond Funds	AAA	£25m	liquid



**Non-Specified Investments:**

- 18 All investments that do not qualify as specified investments are termed non-specified investments. The table below details the total percentage of the Annual Principal Sums that can be Invested for more than 1 year and can be held in each category of investment, for example 100% of the Principal Sums limit can be held with the UK Government at any one time.
- 19 Unrated banks, building societies and other institutions are classed as non-specified investments irrespective of the investment period. When investing with this institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.
- 20 The “RAG” (Red, Amber or Green) framework will be used by the Council to evaluate and compare the security and liquidity elements of investment opportunities with unrated institutions as deemed appropriate.
- 21 The “RAG” indicator framework is generally used to identify the strength of a company’s financial numbers. For example, all for the financial sector there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.
- 22 In assessing investment opportunities with unrated UK Banks, Building Societies and other Institutions the Council will look at the following metrics:

Ratio	Red	Amber	Green
Total Debt / Equity	<5	5-10	>10
Net Interest Margin	<0	0-1.5	>1.5
CET1 Ratio	<9	9-13%	>13%
Capital Adequacy Ratio	<0	10-12%	>12%
Total Capital Ratio	<8	8-14%	>14%

Ratio	Red	Amber	Green
Tangible Equity Ratio	<3	3-5	>5
Loan to Deposit Ratio	>110	100-110	<100
Non-performing loan Ratio	>5	2-5	<2
Return on Equity	<0%	0-10%	>10%
Dividend yield	0-8%	8-12%	>12%
P/E Ratio	<0	0-10	>10%

- 16 Whilst the Council look for as many ‘greens’ as possible, a balance of ratios that indicate long-term solvency and ability for the institution to service and repay debts is most important.

**Minimum Criteria for considering Unrated Institutions with money and time limits:**

	<b>Institution Assets Value</b>	<b>Money Limit</b>	<b>Time Limit</b>
Unrated UK Building Societies & Challenger Banks with assets in excess of:	£1.5bn £2.0bn	£3m £5m	6 months 12 months

- 17 It is considered that the maximum nominal value of overall investments that the Council should hold for more than 1 year and less than 5 years is £50m. (Investments with maturity over a year) The prudential indicator figure of £50m is therefore recommended.

**The credit criteria for non-specified investments are detailed in the table below:**

<b>Institution</b>	<b>Fitch Long term Rating (or Equivalent)</b>	<b>Time Limit</b>	<b>Monetary Limit</b>
Term deposits – Banks and Building Societies	Short-term F1+, Long-term AA-	3 years	£25m
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Short-term F1+, Long-term AA-	3 years	£25m
Part Nationalised or Wholly Owned UK Banks	N/A	3 years	£25m
Certificates of Deposits	Short-term F1+, Long-term AA-	3 years	£25m
Corporate Bonds	Short-term F1+, Long-term AA-	5 years	£25m
Covered Bonds	Long Term AAA	5 years	£25m
UK Government Gilts	N/A	5 years	100% of Investment Portfolio

- 18 Country limits - The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). A counterparty list will be compiled based on this sovereign rating of AAA and in accordance with the Council's minimum credit rating criteria policy for institutions and qualified institutions will be added to this list, and unqualified institutions will be removed from the list, by officers as deemed appropriate. Please see Appendix 3 for qualified countries and their institutions as of 10/11/2015.

## Appendix 4: Definition of Credit Ratings

### Short-term Ratings

Rating	
<b>F1</b>	<b>Highest credit quality.</b> Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
<b>F2</b>	<b>Good 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.
<b>F3</b>	<b>Fair 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 Ratings

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 capacities for timely payment of financial commitments are 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 5 – Investment Portfolio as at 30<sup>th</sup> September 2015**

<b>Time to Maturity</b>	<b>Counterparty</b>	<b>From</b>	<b>Maturity</b>	<b>Amount £m</b>	<b>Rate</b>
<b>Overnight</b>	BNP Paribas MMF		<b>MMF</b>	25.00	
	Deutsche MMF		<b>MMF</b>	21.90	
	Federated MMF		<b>MMF</b>	9.40	
	IGNIS MMF		<b>MMF</b>	25.00	
	<b>SUB TOTAL</b>			<b>81.30</b>	
<b>&lt; 1 Month</b>	Standard Chartered Bank (CDs)	01/04/2015	01/10/2015	10.00	0.68%**
	Development Bank of Singapore	29/06/2015	29/10/2015	10.00	55.00%
<b>1 - 3 Months</b>	Helaba	12/05/2015	12/11/2015	5.00	0.74%
	Australia & Newzealand Bank	12/08/2015	12/11/2015	10.00	0.54%
	Lloyds Banking Group	13/11/2014	13/11/2015	5.00	1.00%
	DZ Bank	26/08/2015	26/11/2015	5.00	0.55%
	DZ Bank	28/05/2015	30/11/2015	5.00	0.64%
	DZ Bank	29/05/2015	30/11/2015	5.00	0.64%
	DZ Bank	01/06/2015	01/12/2015	5.00	0.64%
	Commonwealth Bank of Australia	03/09/2015	03/12/2015	5.00	0.53%
	Skandinaviska Enskilda Banken	03/06/2015	03/12/2015	10.00	0.61%
	Lloyds Banking Group	04/12/2014	04/12/2015	5.00	1.00%
Australia & Newzealand Bank	12/08/2015	14/12/2015	10.00	0.55%	
<b>3 - 6 Months</b>	Santander (95DN)		Call - 95N	20.00	1.10%
	Skandinaviska Enskilda Banken	03/07/2015	03/01/2016	5.00	0.64%
	Development Bank of Singapore	07/07/2015	07/01/2016	5.00	0.62%
	Commonwealth Bank of Australia	03/09/2015	03/02/2016	5.00	0.58%
	Lloyds Banking Group	04/02/2015	04/02/2016	5.00	1.00%
	Development Bank of Singapore	10/08/2015	10/02/2016	10.00	0.61%
	National Australia Bank	16/02/2015	16/02/2016	10.00	0.61% *
	Development Bank of Singapore	17/08/2015	17/02/2016	5.00	0.61%
	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Helaba	26/05/2015	26/02/2016	5.00	0.86%
	Commonwealth Bank of Australia	03/09/2015	03/03/2016	5.00	0.62%
	Commonwealth Bank of Australia	14/09/2015	14/03/2016	10.00	0.64%
	<b>6 - 9 Months</b>	DZ Bank	26/08/2015	26/02/2015	5.00
Lloyds Banking Group		04/03/2015	04/03/2016	5.00	1.00%
Lloyds Banking Group		05/03/2015	07/03/2016	10.00	1.00%
Royal Bank of Scotland		20/03/2014	20/03/2016	5.00	1.25%
Standard Chartered Bank (CDs)		01/04/2015	30/03/2016	10.00	0.86%**
Lloyds Banking Group		07/04/2015	07/04/2016	5.00	1.00%
Lloyds Banking Group		10/04/2015	08/04/2016	5.00	1.00%
Lloyds Banking Group		13/04/2015	12/04/2016	5.00	1.00%
Nationwide Building Society		13/04/2015	12/04/2016	10.00	0.90%
Lloyds Banking Group		15/04/2015	14/04/2016	5.00	1.00%
Nationwide Building Society		16/04/2015	15/04/2016	5.00	0.90%
Barclays		16/04/2015	15/04/2016	10.00	0.92%
Lloyds Banking Group		17/04/2015	15/04/2016	10.00	1.00%
Nationwide Building Society		24/04/2015	22/04/2016	5.00	0.90%
Nottingham Building Society		29/04/2015	28/04/2016	5.00	1.00%
Newcastle Building Society		29/04/2015	28/04/2016	5.00	1.10%
Lloyds Banking Group		29/04/2015	29/04/2016	5.00	1.00%
<b>9 - 12 Months</b>	Helaba	01/05/2015	03/05/2016	10.00	0.94%
	Commonwealth Bank of Australia	05/08/2015	05/08/2016	5.00	0.84%

<b>Time to Maturity</b>	<b>Counterparty</b>	<b>From</b>	<b>Maturity</b>	<b>Amount £m</b>	<b>Rate</b>
	Lloyds Banking Group	13/08/2015	12/08/2016	5.00	1.00%
<b>&gt; 12 Months</b>	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	Royal Bank of Scotland	05/05/2015	05/05/2017	5.00	1.420% **
	Royal Bank of Scotland	08/05/2015	08/05/2017	5.00	1.420% **
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20% *
	Royal Bank of Scotland	30/04/2015	30/04/2018	5.00	0.90% *
	<b>SUB TOTAL</b>			<b>340.00</b>	
	<b>TOTAL</b>			<b>421.30</b>	

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

\*\* This is certificate of Deposits

## Appendix 6 – 2015-16 Prudential and Treasury Management Indicators

Prudential Indicators	2014/15	2015/16	2015/16	2016/17	2017/18
Extract from Estimate and rent setting reports	Actual	Original Estimate	Revised Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
<b>Capital Expenditure</b>					
Non – HRA	56.238	50.408	37.472	39.482	10.465
HRA	76.852	121.564	123.556	102.637	25.317
<b>TOTAL</b>	<b>133.090</b>	<b>171.972</b>	<b>161.028</b>	<b>142.119</b>	<b>35.782</b>
<b>Ratio of Financing Costs To Net Revenue Stream</b>					
Non – HRA	2.39%	2.82%	2.68%	2.86%	2.98%
HRA	3.70%	4.85%	3.74%	5.51%	5.59%
	£m	£m	£m	£m	£m
<b>Gross Debt and Capital Financing Requirement</b>					
Gross Debt	136.700	162.789	128.005	159.979	157.416
Capital Financing Requirement	227.517	260.356	228.877	264.192	265.786
Over/(Under) Borrowing	(90.817)	(97.567)	(100.872)	(104.213)	(108.370)
<b>In Year Capital Financing Requirement</b>					
Non – HRA	0.000		(0.001)	(0.000)	0.000
HRA	0.000	21.804	1.361	35.315	1.594
<b>TOTAL</b>	<b>0.000</b>	<b>21.804</b>	<b>1.360</b>	<b>35.315</b>	<b>1.594</b>
<b>Capital Financing Requirement as at 31 March</b>					
Non - HRA	157.842	168.877	157.841	157.841	157.841
HRA	69.675	91.479	71.036	106.351	107.945
<b>TOTAL</b>	<b>227.517</b>	<b>260.356</b>	<b>228.877</b>	<b>264.192</b>	<b>265.786</b>
<b>Incremental Impact of Financing Costs (£)</b>					
Increase in Council Tax (band D) per annum	0.000	0.908	1.260	2.446	2.375
Increase in average housing rent per week	0.000	0.000	0.000	8.097	0.190

Treasury Management Indicators	2014/15	2015/16	2015/16	2016/17	2017/18
	Actual	Original Estimate	Revised Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
<b>Authorised Limit For External Debt -</b>					
Borrowing & Other long term liabilities	245.720	323.828	292.349	326.700	327.089
Headroom	20.000	20.000	20.000	20.000	20.000
<b>TOTAL</b>	<b>265.720</b>	<b>343.828</b>	<b>312.349</b>	<b>346.700</b>	<b>347.089</b>
<b>Operational Boundary For External Debt -</b>					
Borrowing	206.310	285.356	253.877	289.192	290.786
Other long term liabilities	39.410	38.472	38.472	37.508	36.303
<b>TOTAL</b>	<b>245.720</b>	<b>323.828</b>	<b>292.349</b>	<b>326.700</b>	<b>327.089</b>
<b>Gross Borrowing</b>	<b>136.700</b>	<b>162.789</b>	<b>127.117</b>	<b>159.979</b>	<b>157.416</b>
<b>HRA Debt Limit*</b>	<b>184.381</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>
<b>Upper Limit For Fixed Interest Rate Exposure</b>					
Net principal re fixed rate borrowing / investments	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Upper Limit For Variable Rate Exposure</b>					
Net interest payable on variable rate borrowing / investments	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>
<b>Upper limit for total principal sums invested for over 364 days (per maturity date)</b>	<b>£50m</b>	<b>£50m</b>	<b>£50m</b>	<b>£50m</b>	<b>£50m</b>

Maturity structure of new fixed rate borrowing during 2015/16	Upper Limit	Lower Limit
under 12 months	10%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

## Appendix 7

### List of Approved Counterparties for Lending for London Borough of Tower Hamlets.

Any values highlighted in yellow have undergone a change in the past 14 days.

Counterparty	Fitch Ratings			Moody's Ratings			S&P Ratings			Monetary Limit	Duration	Notes
	Long Term	Short Term		Long Term	Short Term		Long Term	Short Term				
<b>Australia</b>	SB	AAA		SB	Aaa		SB	AAA				
Banks												
Australia and New Zealand Banking Group Ltd.	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
Commonwealth Bank of Australia	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
Macquarie Bank Ltd.	SB	A	F1	SB	A2	P-1	SB	A	A-1	20m	1 Years	
National Australia Bank Ltd.	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
Westpac Banking Corp.	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
<b>Canada</b>	SB	AAA		SB	Aaa		SB	AAA				
Banks												
Bank of Montreal	SB	AA-	F1+	NO	Aa3	P-1	NO	A+	A-1	25m	2 Years	
Bank of Nova Scotia	SB	AA-	F1+	NW	Aa2	P-1	NO	A+	A-1	25m	2 Years	
Canadian Imperial Bank of Commerce	SB	AA-	F1+	NO	Aa3	P-1	NO	A+	A-1	25m	2 Years	
National Bank of Canada	SB	A+	F1	NO	Aa3	P-1	NO	A	A-1	20m	1 Years	
Royal Bank of Canada	SB	AA	F1+	NO	Aa3	P-1	NO	AA-	A-1+	25m	3 Years	£30m/
Toronto-Dominion Bank	SB	AA-	F1+	NO	Aa1	P-1	NO	AA-	A-1+	25m	3 Years	£30m/
<b>Denmark</b>	SB	AAA		SB	Aaa		SB	AAA				
Banks												
Danske A/S	SB	A	F1	SB	A2	P-1	SB	A	A-1	20m	1 Years	
<b>Germany</b>	SB	AAA		SB	Aaa		SB	AAA				
Banks												
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB	AA-	F1+	PO	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
Landesbank Berlin AG				PO	A1	P-1				25m	2 Years	
Landesbank Hessen-Thüringen Girozentrale	SB	A+	F1+	PO	A1	P-1	SB	A	A-1	20m	1 Years	
Landwirtschaftliche Rentenbank	SB	AAA	F1+	SB	Aaa	P-1	SB	AAA	A-1+	25m	3 Years	£30m/
NRW.BANK	SB	AAA	F1+	SB	Aa1	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
<b>Netherlands</b>	SB	AAA		SB	Aaa		SB	AAA				
Banks												
ABN AMRO Bank N.V.	SB	A	F1	SB	A2	P-1	NO	A	A-1	20m	1 Years	
Bank Nederlandse Gemeenten N.V.	SB	AA+	F1+	SB	Aaa	P-1	PO	AA+	A-1+	25m	3 Years	£30m/



	Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)	SB	AA-	F1+	SB	Aa2	P-1	NO	A+	A-1	25m	2 Years	
	ING Bank N.V.	SB	A	F1	SB	A1	P-1	SB	A	A-1	20m	1 Years	
	Nederlandse Waterschapsbank N.V.				SB	Aaa	P-1	PO	AA+	A-1+	25m	3 Years	£30m/
<b>Singapore</b>		SB	AAA		SB	Aaa		SB	AAA				
Banks	DBS Bank Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	Oversea-Chinese Banking Corp. Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	United Overseas Bank Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
<b>Sweden</b>		SB	AAA		SB	Aaa		SB	AAA				
Banks	Nordea Bank AB	SB	AA-	F1+	SB	Aa3	P-1	NO	AA-	A-1+	25m	3 Years	£30m/
	Skandinaviska Enskilda Banken AB	PO	A+	F1	SB	Aa3	P-1	NO	A+	A-1	25m	2 Years	
	Svenska Handelsbanken AB	SB	AA-	F1+	SB	Aa2	P-1	NO	AA-	A-1+	25m	3 Years	£30m/
	Swedbank AB	PO	A+	F1	SB	Aa3	P-1	SB	A+	A-1	25m	2 Years	
<b>Switzerland</b>		SB	AAA		SB	Aaa		SB	AAA				
Banks	Credit Suisse AG	PO	A	F1	NW	Aa3	P-1	SB	A	A-1	20m	1 Years	
	UBS AG	SB	A	F1	PW	A1	P-1	SB	A	A-1	20m	1 Years	
<b>United Kingdom</b>		SB	AA+		SB	Aa1		NO	AAA				
AAA rated and Government backed securities Banks	Debt Management Office											6 Months	(M) Monet Limit unlimit
	Bank of Scotland PLC	SB	A+	F1	PO	A1	P-1	SB	A	A-1	20m	1 Years	
	Close Brothers Ltd	SB	A	F1	SB	Aa3	P-1				20m	1 Years	
	Co-operative Bank PLC (The)	SB	B	B	PO	Caa2	NP				25m	1 Days	(M) Ov Bank
	Goldman Sachs International Bank	PO	A	F1	SB	A1	P-1	PW	A	A-1	20m	1 Years	
	HSBC Bank PLC	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	Lloyds Bank Plc	SB	A+	F1	PO	A1	P-1	SB	A	A-1	20m	1 Years	
	Santander UK PLC	PO	A	F1	SB	A1	P-1	NO	A	A-1	20m	1 Years	
	Standard Chartered Bank	NO	A+	F1	NW	Aa2	P-1	SB	A+	A-1	25m	2 Years	
	Sumitomo Mitsui Banking Corporation Europe Ltd	SB	A	F1	SB	A1	P-1	SB	A	A-1	20m	1 Years	
	UBS Ltd.	SB	A	F1	PW	A2	P-1	SB	A	A-1	20m	1 Years	
	Ulster Bank Ltd	SB	BBB+	F2	SB	A3	P-2	SB	BBB	A-2	25m	3 Years	(M) £2 Group (£70m Year
Building Society	Coventry Building Society	SB	A	F1	PO	A2	P-1				20m	1 Years	

	Cumberland Building Society										3m	6 Months	
	Leeds Building Society	SB	A-	F1	SB	A2	P-1				5m	12 Months	
	Nationwide Building Society	SB	A	F1	SB	A1	P-1	SB	A	A-1	20m	1 Years	
	Newcastle Building Society	SB	BB+	B							5m	12 Months	
	Nottingham Building Society				SB	Baa1	P-2				5m	12 Months	
	Principality Building Society	SB	BBB+	F2	PO	Baa3	P-3				5m	12 Months	
	Progressive Building Society										3m	6 Months	
	Skipton Building Society	SB	BBB+	F2	SB	Baa2	P-2				5m	12 Months	
	West Bromwich Building Society				SB	B1	NP				5m	12 Months	
	Yorkshire Building Society	SB	A-	F1	PO	A3	P-2				5m	12 Months	
Nationalised and Part Nationalised Banks	National Westminster Bank PLC	SB	BBB+	F2	SB	A3	P-2	SB	BBB+	A-2	25m	3 Years	(M) £2 Group (£70m Year
	The Royal Bank of Scotland Plc	SB	BBB+	F2	SB	A3	P-2	SB	BBB+	A-2	25m	3 Years	(M) £2 Group (£70m Year

Advisory notes:

**Local Authorities** - £20 Million per LA

**Money Market Funds**- £25 Million per Fund

**Standard Banks** 3 years - £25 Million or 1 year - £30 Million

**Part Nationalised Banks** 3 years - £25 Million or 1 year - £70 Million

(M) = Manually added counterparty. If a rating changes for this institution it will not alter its status on the counterparty list, or limits assigned to it.

## Appendix 8 – Glossary

Asset Life	How long an asset, e.g. a Council building is likely to last.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires borrowing to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used

	is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gross domestic product (GDP)	Gross domestic product (GDP) is a measure of the size of an economy. It is defined as "an aggregate measure of production equal to the sum of the gross values added of all resident, institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs)" by the OECD. GDP estimates are commonly used to measure the economic performance of a whole country or region, but can also measure the relative contribution of an industry sector.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high

	employment and sustainable economic growth, and reduce poverty around the world.
Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
The Organisation for Economic Co-operation and Development (OECD)	The Organisation for Economic Co-operation and Development (OECD) is an international economic organisation of 34 countries, founded in 1961 to stimulate economic progress and world trade. It is a forum of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identify good practices and coordinate domestic and international policies of its members.
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council's Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
Specified Investments	Investments that meet the Council's high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds

Treasury bills (or T-bills)	are for the purpose of promoting economic development Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council.