TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 28 June 2016 at 7.00 p.m.

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 Andrew Cregan, Councillor Denise Jones, Councillor Ohid Ahmed, Councillor Harun Miah and Councillor Craig Aston

Deputies:
Councillor Helal Uddin, Councillor Rajib Ahmed, Councillor Marc Francis and Councillor Andrew Wood

[The quorum for this body is 3 Members]

Contact for further enquiries:
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Web: http://www.towerhamlets.gov.uk/committee

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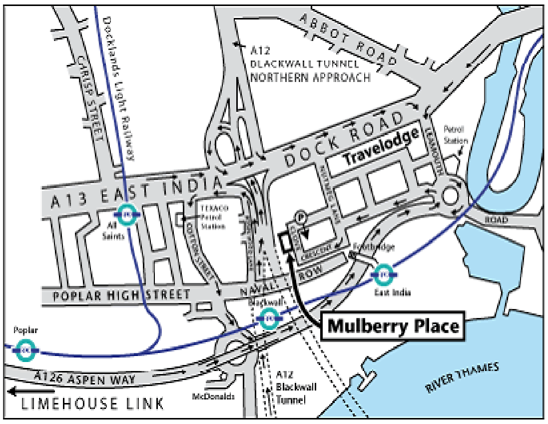

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7. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Next Meeting of the Committee:
Tuesday, 20 September 2016 at 7.00 p.m. to be held in the Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

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, Corporate Director of Law Probity and Governance 2017 364 4800

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	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. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	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— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
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	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (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.

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Non-Executive Report of the: **Audit Committee** 28 June 2016	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:** Unrestricted
KPMG External Audit Plan 2015/16	

1. SUMMARY

1.1 This report presents KPMG's Audit Plan for 2015/16. KPMG's report outlines their audit approach and their areas of review including those they consider high risk.

1.2 KPMG's audit review covers providing an opinion on the financial statements for 2015/16. A draft of the 2015/16 financial statements is being tabled tonight. The auditors are due to provide an opinion on the financial statements by the end of September 2016. The auditors will also conduct a use of resources review as part of concluding if the council has achieved value for money.

2. RECOMMENDATIONS

Audit Committee is recommended to:-

2.1 Note KPMG's audit plan for 2015/16 and the areas of review.

3. BACKGROUND

3.1 The Audit Plan for 2015/16 comprises two elements:

- A review of the financial statements
- A Value for Money review

The audit plan is attached as Appendix 1.

3.2 The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit (England) Regulations 2011. The accounts must be prepared and certified by 30th June by the Corporate Director, Resources (the 'responsible financial officer') that it presents a true and fair view of the financial position of the Council. By no later than 30th September the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. Although the Audit Committee is not actually required to consider the accounts prior to audit, good practice recognises the value in giving Members early notification of the financial outcome of the previous financial year.

3.3 For 2015/16 the audit is still being conducted by KPMG. The main audit is due to commence in late July 2016. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 20th September for consideration and formal approval.

4. FINANCIAL STATEMENTS AUDIT

4.1 In reviewing the Statement of Accounts and considering Value for Money, the auditors conduct a risk assessment of areas that they will review. They have set a materiality threshold of £15m for the Council's accounts and £20m for the pension fund accounts. This materiality threshold is used to gauge there is a risk of items being misstated on the face of the financial statements.

4.2 For example if property plant and equipment is misstated. The external auditors haven't qualified previous statement of accounts. Even though the 2014/15 audit has not been completed due to an outstanding objection to the accounts, there were no areas of concern raised that could have led to a qualification on the accounts. The auditors are due to report their findings to the September Audit Committee. As well as auditing the financial statements, KPMG will also review the council's Whole of Government Accounts return to ensure it is consistent with the annual accounts.

4.3 The auditors have identified risks that they will review as part of the audit. These comprise the following:

4.4 **Property, Plant and Equipment (PPE)** – as PPE is worth £2bn on the council's balance sheet, there is a risk that the value might be misstated. Though not all property is valued every year, to mitigate the risk of misstatements, officers use professional property valuers to conduct periodic property valuations to produce suitable valuations to construct the balance sheet and to calculate a depreciation charge.

4.5 **Section 106 agreements** – as the Commissioners have highlighted the use of s106 monies as a risk, KPMG will conduct a sample review of some schemes to ensure monies are spent in accordance with the conditions. A separate report on s106 management is being tabled at tonight's committee.

4.6 **Grant Payments** – as the 2014 Best Value inspection concluded value for money had not been achieved in the payment of grants, the Commissioners have had responsibility for reviewing the procedures in place for awarding grants. KPMG will review the systems the council has in place.

4.7 **Declarations of Interest** – KPMG will review if Members and officers have made declarations of interest.

4.8 **Pension Fund assets and liabilities** – The value of the Council's pension fund is in excess of £1.1bn. The majority of pension fund investments are based on stock market valuations. The actuary also produces a calculation of estimated pension liabilities to work out the deficit or surplus on the pension fund.

4.9 **Payroll costs** – As payroll costs make up a significant part of council expenditure, KPMG will review payroll reconciliations and the posting of payroll costs to the ledger. Officers have conducted reconciliations of payroll records and payments to the ledger.

4.10 **Income from property leases** – As the Commissioners have raised concerns on how property charges are set for organisations, KPMG will be reviewing the procedures in place.

4.11 **Youth Services** – KPMG will review the investigations and audits into the Council's youth services. These concerns led to the youth service underspending in 2015/16.

4.12 **Implementation of Best Value plans** – Following the section 11 recommendation, progress is tabled regularly to the Best Value Programme Board on how the seven action plans are progressing and how they are being embedded into the culture of the council.

4.13 **Medium Term Financial Plan** – With Local Authority finances being reduced year-on-year, the auditors will consider how prepared the council is to achieve savings plans and to continue to provide services.

4.14 **Governance in schools** – Internal audit have identified concerns over financial controls operating in 14 schools. KPMG will review how governance arrangements have been improved and review the 2015/16 annual schools internal audit report.

4.15 **Inspection of Accounts** – KPMG are required to handle objections to the financial statements from electors. At the moment KPMG are considering an objection to the accounts regarding the council's use of LOBO loans. KPMG will have to consider if any new objections raised are valid and require investigation. The council has to meet the auditor's cost of considering objections.

4.16 **Audit Fee** – The audit plan outlines the annual audit fee. For 2015/16 the planned fee was £209,918 (as per note 35 of the 2015/16 Accounts) and £21k for the pension audit.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

5.1 The comments of the chief financial officer are incorporated within this report.

6. LEGAL COMMENTS

6.1 The Local Audit and Accountability Act 2014 ('the 2014 Act') abolished the Audit Commission (AC) with effect from 1st April 2015 and gave to the Secretary of State for Communities and Local Government ('DCLG') power to transfer the responsibilities of the AC to other bodies. In that regard, DCLG selected the Public Sector Audit Appointments Limited (PSAA). DCLG then delegated statutory functions from the Audit Commission Act 1998 ('the 1998 Act') to PSAA by way of a letter of delegation and which was issued under powers contained in the 2014 Act.

6.2 The PSAA is a new limited company set up by the Local Government Association as the transferee in respect of the management of the AC's current contracts for the audit of Local Authorities and NHS bodies in England until those contracts expire. PSAA has taken on some key statutory functions of the AC and the main functions that have transferred are:

(a) the appointment of auditors and terms of appointment (section 3 of the 1998 Act);
(b) setting scales of fees and determining variations to scale fees (section 7 of the 1988 Act); and
(c) making arrangements for the certification of claims and returns (section 28 of the 1998 Act).

6.3 KPMG LLP is one of the auditors appointed by PSAA.

6.4 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2011. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5,000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.

6.5 The Accounts and Audit (England) Regulations 2011 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30 June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The audit committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.

6.6 As indicated in section 3 of the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.

6.7 The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is referred to as the Council's best value duty. This report outlines KMPG's audit approach and their areas of review including those they consider high risk. This report along with KMPG's use of resources review will go towards demonstrating that the Council is meeting this duty.

6.8 When making decisions, 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 do not (the public sector equality duty). There are no direct equality implications arising from this report.

7. <u>ONE TOWER HAMLETS CONSIDERATIONS</u>

7.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.

7.2 The statements are published on the Council's website both in draft and in audited form. Interested parties have the right to inspect the accounts during the audit and local electors have the right to submit questions to the auditor.

Details of these rights are published in local newspapers at appropriate stages.

8. BEST VALUE (BV) IMPLICATIONS

8.1 KPMG will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of achieving best value as part of the Annual Audit Letter.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

9.1 There are no SAGE implications arising out of this report.

10. RISK MANAGEMENT IMPLICATIONS

10.1 There are no specific risk management implications.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 There are no crime and disorder reduction implications.

12. EFFICIENCY STATEMENT

12.1 There are no specific efficiency implications although KPMG will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter.

13. APPENDICES

Appendix 1 – KPMG External Audit Plan 2015/16.

Local Government Act, 2000 (SECTION 97)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT
None

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External Audit Plan 2015/2016

London Borough of
Tower Hamlets

May 2016 - DRAFT

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has set at **£15 million** for the Authority and **£20 million** for the Pension Fund. For sensitive areas including s106 agreements, declarations of interest, grants and youth services we will, as appropriate, use a lower level of precision for determining the testing required that relates to the size of the population and the audit risks identified in these areas.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £750,000 for the Authority and £1 million for the Pension Fund.

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Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Property Plant and Equipment;
- S106 agreements;
- Declarations of interest; and
- Grants.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Pension assets and liabilities;
- Payroll;
- Income from property leases; and
- Youth services.

See pages 3 to 6 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks and areas of audit focus:

- Implementation of Best Value action plans and Section 11 recommendation (significant);
- Medium Term Financial Plan; and
- Governance in schools.

See pages 7 to 10 for more details.

Logistics

Our team is:

- Andrew Sayers – Partner
- Antony Smith – Manager
- Ian Livingstone – Assistant Manager

More details are on **page 13.**

Our work will be completed in four phases from March to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 12.**

Our fee for the audit is £209,918 (£279,890 2014/2015) for the Authority and £21,000 (£21,000 2014/15) for the Pension Fund see **page 11.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

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

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Financial Statements Audit Planning | Control Evaluation | Substantive Procedures | Completion

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 7 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the findings of our VFM risk assessment.

Risk Assessment | Identification of significant VFM risks | VFM audit work | Conclude | Reporting

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during March and May 2016. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

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Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry 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.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.

Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

Significant risks are those risks requiring specific audit attention and require specific procedures to address the likelihood of a material financial statement error.

Property, Plant and Equipment

- Risk: The Council has a significant asset base primarily relating to Council dwellings; and operational buildings. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty.
- Approach: We will understand the approach to valuation, confirm the information provided to the valuer from the Authority, consider the reports by the Council's external valuers and the judgements made by the Council in response to the information received. We will compare the assumptions made by your valuer to benchmarks and to the assumptions used for 2014/15 for consistency and ensure that your valuer explicitly considers upward trends as well as impairments in conducting the valuations; and also whether there are material changes in valuations for asset classes valued more than 12 months ago. We will consider disposals (in relation to the BV Inspection findings and consequent Direction). We will also review completeness of information held on the new fixed asset system.

Section 106 agreements

- Risk: The Commissioners highlighted this as an additional area of concern from the enquiries they have made. The Authority has also had an independent review of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements.
- Approach: We will sample test a selection of schemes and the overall controls employed by the Council to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process. We will also consider the results of the independent review and the Council's response.

Significant Audit Risks (continued)

Grant payments

- Risk: The Best Value Inspection completed in 2014 concluded that the Authority had not achieved its best value duty with regard to the payment of grants totalling £12.2 million and connected decisions in the period from 25 October 2010 to 4 April 2014. Consequently, the award of grants became the responsibility of independent Commissioners who were appointed by the Secretary of State for CLG from January 2015. (2015/16 represents the first full year of the new arrangements being in place.)
- Approach: We will consider the detailed approach and systems put in place by the Council and Commissioners. We will also assess whether any conditions/ delegation arrangements have been implemented effectively by Authority officers.

Declarations of interest

- Risk: We reported in our 2014/15 ISA260 report to the Authority that the Authority had taken the actions agreed in response to our 2013/14 recommendations in this area (made in October 2015). However, the Commissioners have informed us that they remain concerned as to whether declarations are being made appropriately and completely by both officers and Members.
- Approach: We will therefore consider the Authority's actions taken and consider what/whether any testing should be undertaken in 2016.

Financial statements audit planning (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

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Pension assets and liabilities

- Risk: Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.
- Approach: We will:
  - Confirm the information provided to the actuary from the Authority.
  - Review the actuarial valuation and consider the disclosure implications.
  - Consider the approach adopted and assumptions made by your actuaries to benchmark and other information available to us and to the assumptions used for 2015/16 for consistency.

Payroll

- Risk: Payroll represents a significant proportion of the Authority's annual expenditure (approaching 33% of gross spend at £464m in 2014/15). Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area.
- Approach: We will:
  - Review and testing reconciliations for gross pay and deductions (eg pensions, tax and national insurance).
  - Complete substantive analytical review of payroll costs and testing supporting system information used to compile the review.

Other areas of audit focus (continued)

Income from property leases

- Risk: Commissioners have identified concerns relating to the robustness and comprehensiveness of information relating to occupation of Council property and formal support to explain/justify related decisions when determining any charges to be paid by the organisation occupying Council property. This also represents a potential VFM risk in that the amounts due/collected/written off are accurately recorded but the concern is with the process for agreeing arrangements formally and implementing them appropriately.
- Approach: We will:
  - Review the Council's approach to leasing its property and consider the information held to support its decision making.
  - Test a sample of agreements to assess whether the approach to leasing is followed in practice.

Youth Services

- Risk: There have been several investigations and audits within the Authority's youth service in the last two years each giving cause for concern. We understand a root and branch review has been commissioned into Youth Services more generally to provide a holistic view. Although not material in financial statement terms the gross budget for the service is significant at approaching £9 million in 2015/16.
- Approach: We will consider the findings from the review and actions being taken by the Authority to address any matters arising. We will consider undertaking further work if considered necessary to fulfil our audit responsibilities.

Financial statements audit planning (cont.)

Materiality

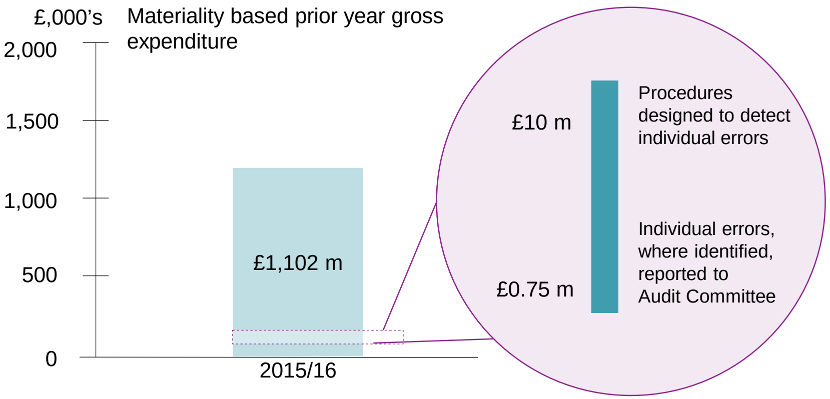
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £15 million which equates to 1.36 percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £20 million.

We design our procedures to detect errors in specific accounts at a lower level of precision. For the Authority this is £10 million for the year ended 31 March 2016 (£15 million for the Pension Fund), and we have some flexibility to adjust this level downwards. In addition, for sensitive areas including s106 agreements, declarations of interest, grants and youth services we will, as appropriate, use a lower level of precision that relates to the size of the population and the audit risks identified.



Reporting to the Audit 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 Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

- In the context of the Authority we propose to report all individual unadjusted differences greater than £750,000 to the Audit Committee.
- In the context of the Pension Fund we propose to report all individual unadjusted differences greater than £1 million to the Audit Committee.
- We will also have regard to other errors below these amounts if there is evidence of systematic error or if material by nature.

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

Value for money arrangements work

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The full guidance is available from the NAO website at: https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/. Our approach to the value for money is recorded below:

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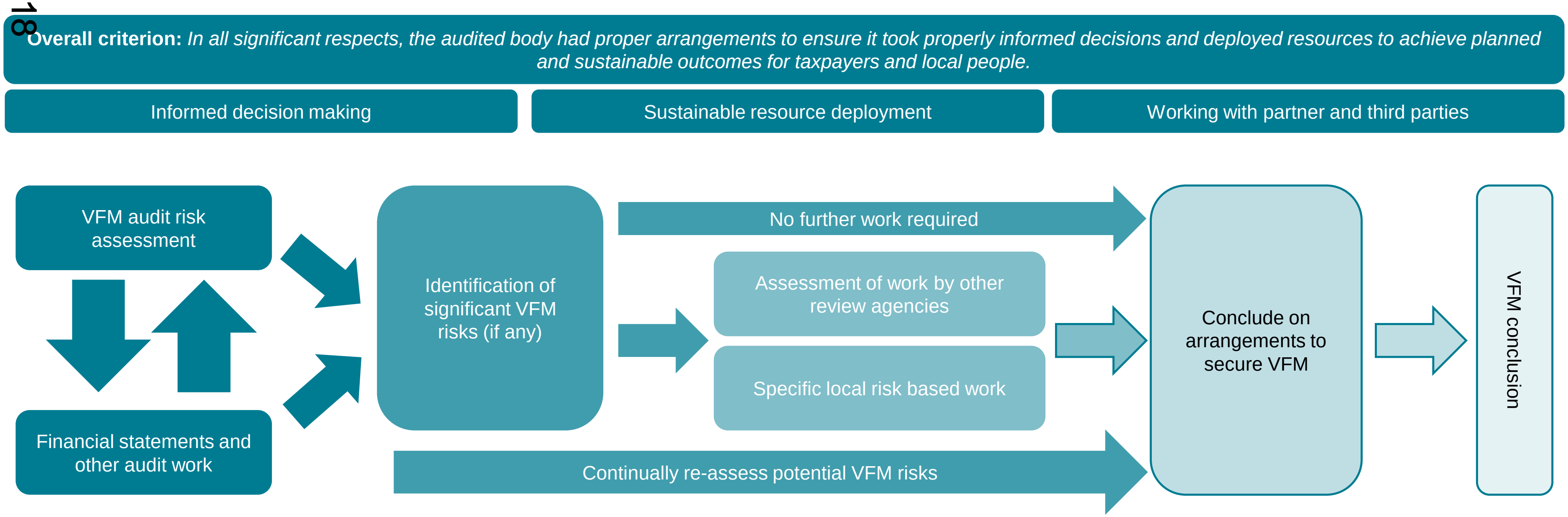

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ▪ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ▪ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ▪ Evidence gained from previous audit work, including the response to that work; and ▪ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ▪ Considering the results of work by the Authority, inspectorates and other review agencies; and ▪ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies **and** **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We have completed our initial VFM risk assessment. On the following page, we report the results of our initial risk assessment. We have identified one significant VFM risk, and two areas of audit focus. We will update our assessment throughout the year should any further issues present themselves and report against these in our ISA260. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont.)

Significant Audit Risks

Significant risks are those risks requiring specific audit attention and require specific procedures to address the likelihood of proper arrangements not being in place to deliver value for money.

Implementation of BV Action Plans and Section 11 recommendation

- Risk: The Authority monitors progress towards implementation regularly and reports on a monthly basis to the Best Value Programme Board. Internal Audit have an agreed programme to review the accuracy of each of the seven action plans as regards the implementation of the individual milestones. The next stage will be for the Authority to be able to demonstrate that the actions have had the planned impact; have addressed the weaknesses in the Authority's arrangements that were highlighted by the BV Inspection report; Electoral Court judgement; and SoS CLG's Directions; and are embedded into the Authority's culture.
- Our section 11 recommendation centred around the Authority undertaking a detailed review of its governance processes across the Authority to satisfy itself that they are appropriate and operating effectively. We identified that this should include consideration of the roles and responsibilities of officers, Members and Committees; delegation and escalation processes; and the sufficiency of analysis and support in relation to decisions by members, officers and relevant committees. We also commented that the governance review should be co-ordinated with the other actions being undertaken and proposed including the programme of cultural change.
- Approach: We will look to work undertaken by the Authority to consider the progress in implementing the BV Action Plans and section 11 recommendation and the extent of embeddedness within the Authority to the extent that this can be assessed during 2015/2016.

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VFM – Areas of audit focus

Those risks with less likelihood of giving rise to proper arrangements not being in place to deliver value for money but which are nevertheless worthy of audit understanding.

Medium Term Financial Plan

- Risk: Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and

VFM – Areas of audit focus (continued)

Medium Term Financial Plan (continued)

quality level of services to local residents. The Authority is estimating a small over spend (of around £1.2 million) for 2015/16. The Authority's balanced budget for 2016/17, includes the delivery of £21 million of approved savings plans, and the use of £23 million from General Fund reserves. The Authority currently estimates that a further £58 million in savings will need to be achieved during the three years 2017/18 to 2019/20, after using £4 million of reserves (General Fund reserves are estimated to be £36 million at 31 March 2020). We are aware the Authority is in the process of developing and agreeing proposals with Members for these future estimated savings. The need for savings could have a significant impact on the Authority's financial resilience. Consequently, the Authority will need to continue to manage its savings plans to secure longer term financial and operational sustainability.

- Approach: We will review overall management arrangements that the Council has for managing its financial position. This will include the processes to develop a robust Medium Term Financial Plan, ongoing monitoring of the annual budget, review of how savings plans have been developed and how their delivery is monitored, responsiveness to increasing costs of demand led services and changes in funding allocations and the governance arrangements of how the figures are reported through to Full Council.

Governance in Schools

- Risk: In 2013/14 Internal Audit reviews found that over half of the schools audited (14 out of 27) fell below the minimum standard of financial control, and management. Internal Audit have also investigated other schools where external referrals alleging irregularity at some schools have been received. Whilst these investigations have not been finalised, it is clear that there are also weaknesses in the governance arrangements of these schools. The Authority has taken action to reinforce the importance of governance and the role of Governors in managing schools. As part of our 2014/15 audit we commented that it would take time for the full impact of the actions to take effect.
- Approach: We will consider the impact of the Authority's actions by liaising with Internal Audit on results of recent audits and review the 2015/16 Annual Schools Internal Audit report.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will continue to be led by Andrew Sayers (Partner); Antony Smith (Manager); and Ian Livingstone (Assistant Manager). Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage, although we do anticipate additional work will be needed to address the risks referred to in this Plan, but have not yet assessed how long this will take.

The planned audit fee for 2015/16 is £209,918 for the Authority. This is a reduction in audit fee, compared to 2014/2015, of £69,972 (25%). The planned audit fee for 2015/16 is £21,000 for the Pension Fund. (2014/15 £21,000).

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team

Audit strategy and plan

ISA 260 (UK&I) Report

Annual Audit Letter

Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

Initial planning meetings and risk assessment

Interim audit

Year end audit of financial statements and annual report

Sign audit opinion

Audit

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Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

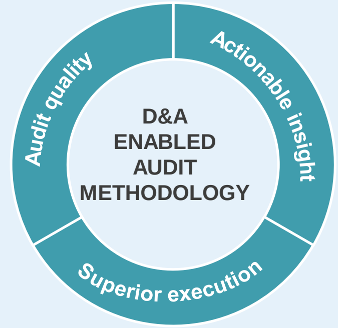
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective ‘business intelligence.’ Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

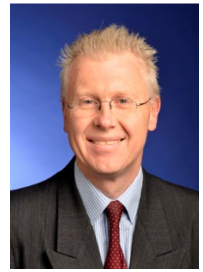
Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the London Borough of Tower Hamlets audit last year.

Name	Andrew Sayers
Position	Partner
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee, Chief Executive and Corporate Directors.'

T: 0207 694 8981

E: andrew.sayers@kpmg.co.uk



Name	Antony Smith
Position	Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Andrew to ensure we add value. I will liaise with the Corporate Director, Resources, the Chief Accountant and the Head of Audit and Risk Management.'

T: 0207 311 2355

E: antony.smith@kpmg.co.uk

Name	Ian Livingstone
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

T: 0207 694 8570

E: ian.livingstone@kpmg.co.uk

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 29 April 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (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 (and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited), who will try to resolve your complaint. 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 by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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Non-Executive Report of the: **Audit Committee** 28 June 2016	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:** Unrestricted
Treasury Management Outturn Report for 2015/16	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	[All wards]

Summary

This report advises the Committee of the Council's treasury management activities for the financial year ended 31 March 2016 as required under the Local Government Act 2003.

The report details the treasury management outturn position based on the credit criteria adopted by the Corporate Director, Resources and the investment strategy for the financial year as approved by the Council and the investment returns.

The Council has complied with its legislative and regulatory requirements as set out in the legal comments at paragraph 5 of this report. The key actual prudential and treasury management indicators detailing the impact of capital expenditure activities during the year, with comparators are also addressed in this report.

The Corporate Director, Resources confirms:

- 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 limit.
- No short-term or long-term borrowing was undertaken during the year to 31 March 2016. Note, £145k of a corporate capital scheme was financed internally without the need to raise new borrowing.

Long term debt reduced from £88.893m to £87.825m (excluding accrued interest shown in Statement of Accounts) as a result of loans maturing during the financial year.

The investment portfolio stood at £379.761m (excluding accrued interest shown on the balance sheet) at 31 March 2016 with £25m being investments longer than one year. The Council earned 0.78% on short term lending, outperforming the benchmark of rolling average 7 Day LIBID rate of 0.35%.

This update ensures that the Council is delivering its Treasury Management service in an open and transparent manner and that the Council is fulfilling its obligations under the Local Government Act 2003 to produce an annual review of activities. The report is being submitted to the Audit Committee to enable Members to fulfil their scrutiny role of the treasury management function as per CIPFA's Treasury Management Code of

Practice. The report also provides information on the economic conditions prevailing in the final quarter of 2015-16.

Recommendations

Members are recommended to:

- Note the Treasury Management activities and performance against targets for the twelve months to 31 March 2016.
- Note the Pension Fund investments balance (set out in section 9 of Annex A).
- Note the Council's investments as at 31 March 2016 (as in Appendix 2).
- Note the Prudential indicators outturn for 2015/16 (set out in Appendix 1).

1. REASONS FOR DECISIONS

1.1 This Council is required by Regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 The minimum reporting requirements stipulated by the Code are that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year(Council;26 February 2015)
- a mid-year treasury update report (Council; November 2015)
- an annual report following the year describing the activity compared to the strategy (this report)

1.3 In addition, the Audit Committee received treasury management activity update reports on 21 July 2015, 23 September, 8 December 2015 and 22 March 2016.

1.4 The Code requires Members to review and scrutinise treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.5 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the 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 should receive an annual report 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.

3. THE STRATEGY

3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council should receive an annual report on treasury management activities.

3.2 The Council approved the Treasury Management Strategy Statement on 25 February 2015, which included the Investment Strategy, Minimum Revenue Provision and prudential indicators for 2015/16. These reports set out the parameters within which Treasury Management officers should operate when executing their roles. In line with the requirement of the Code, this report should assist Members in discharging their responsibilities relating to the review and scrutiny of Treasury Management policies and activities in 2015/16. Detailed report is attached as Annex 1 of this report.

3.3 The Council complied with its legislative and regulatory requirements in 2015/16 and was not in breach of any of the prudential and treasury management indicators. The table below summarises the key indicators relating to capital expenditure activities in the year. A more detailed report of the indicators is attached as Annex 1 and Appendix 1.

3.4 The Corporate Director of Resources also confirms that the Council did not undertake any external borrowing during the year, thus operating within the Authorised borrowing limit in the financial year.

3.5 The Council actual capital expenditure was less than the budgeted figure of £171.972m by £73m. This was not an underspent against the total programme; any resources not used in this reporting year will be used in future years of the programme.

3.6 The HRA (Housing Revenue Account) CFR (Capital Financing Requirements) increased from £69.675 to £74.691 for the year and GF (General Fund) CFR decreased from £157.698m to £151.797m before historic PFI schemes were added to bring the GF CFR up to 187.897m.

3.7 The HRA does not charge MRP (Minimum Revenue Provision) but there is application of the existing statutory calculation of MRP to GF, which is 4% of the aggregate assumed borrowing for general fund investment – termed CFR and also for unsupported borrowing which is based on repaying the borrowing over the estimated life of the asset and this provision is based on equal instalment payments. MRP applied for GF CFR for this financial year was £7.022m (excluding PFI and finance lease MRP).

3.8 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

3.9 **Summary of debt transactions** – management of the debt portfolio resulted in a fall in the average interest rate of 0.06%, representing in a reduction in the charge to the General Fund of £80,000 p.a.

3.10 The Council has continued with its conservative approach of prioritising security and liquidity over yield, Investments would therefore continue to be dominated by low counterparty risk considerations though, this results in a high cost of carry as investment returns are relatively low compared to borrowing rate.

3.11 The council's treasury adviser has removed Lloyds banking group as part nationalised bank as the government stake with the group is now less than 10%. Consequently the council revised the monetary and duration limits for this group to be in line with its credit worthiness policy. Based on the group credit ratings and the council credit worthiness policy, the current monetary limit is £20m for a maximum duration of 6 months.

3.12 The council has £40m of investment outstanding with the Lloyds group as at 31st March 2016. The investments were undertaken prior to the change, that is, they were transacted when the bank met the council's treasury adviser classification criteria of a part nationalised bank, with monetary limit of £70m and duration of 2 years.

3.13 No more transactions are being carried out with the group. All outstanding deposits are less than one year to maturity; the outstanding investments would be run down to the council's monetary and time limits for the group, which is currently £20m and 6 months duration. As of today, the outstanding investment with this group is £5m to mature 12th August 2016.

3.14 The current institutions the Council can currently lend to, is as set in Appendix 3.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5. LEGAL COMMENTS

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

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

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

5.4 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.

5.5 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 6 of the report relevant to these considerations.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 Interest income on the Council's cash flows 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.

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 the end of March 2016 and the treasury function operated within budget for financial year 2015/16.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 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

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

Linked Reports, Appendices and Background Documents

Linked Report
[None]

Appendices
Appendix 1: Prudential and Treasury Indicators
Appendix 2: Investments Outstanding as at 31st March 2016
Appendix 3: Counterparty List for London Borough of Tower Hamlets
Appendix 4: 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 - Investment & Treasury Manager (Ext. 4733 Mulberry Place, 3rd Floor)

Annex A

London Borough of Tower Hamlets

Annual Treasury Management Review
2015/16

Contents

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing 2015/16

1.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

1.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m General Fund	**2014/15 Actual**	**2015/16 Estimate**	**2015/16 Actual**
Capital expenditure	**59.835**	**50.408**	**26.621**
Financed in year	56.238	39.373	26.476
Unfinanced capital expenditure	**3.597**	**11.035**	**0.145**

£m HRA *(where relevant)*	**2014/15 Actual**	**2015/16 Estimate**	**2015/16 Actual**
Capital expenditure	**76.852**	**121.564**	**72.349**
Financed in year	76.852	99.760	66.358
Unfinanced capital expenditure	**0.000**	**21.804**	**5.991**

2. The Council's Overall Borrowing Need

2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2015/16 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

2.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

2.3 **Reducing the CFR** – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

2.4 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

2.5 The Council's 2015/16 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2015/16 on 25/02/2015.

2.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's theoretical borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR (£m): General Fund	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Opening balance	151.045	157.842	157.698
Add Schools PFI schemes previously shown outside CFR in Statement of Accounts			36.101
Add unfinanced capital expenditure (as above)	12.939	15.860	0.145
Less MRP/VRP	(6.142)	(7.618)	(7.022)
Less PFI & finance lease repayments		(1.770)	(0.766)
Add Land Appropriations			0.975
Closing balance	157.842	164.314	**187.897**

CFR (£m): HRA	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Opening balance	69.675	69.819	69.675
Add unfinanced capital expenditure (as above)		32.695	5.991
Less VRP			0
Less Land Appropriations			(0.975)
Closing balance	69.675	102.514	**74.691**

2.7 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council ensured that its gross external borrowing does not exceed the total of the capital financing requirement in the preceding year (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2015/16. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Gross borrowing position	£136.833m	£162.789m	£125.901m
CFR	£227.517m	£253.506m	£262.588m

2.8 **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2015/16 the Council has maintained gross borrowing within its authorised limit.

2.9 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. **For the reporting financial year the boundaries were not breached.**

2.10 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2015/16
Authorised limit	£271.488m
Maximum gross borrowing position	£125.901m
Operational boundary	£251.488m
Financing costs as a proportion of net revenue stream	1.306%

3. Treasury Position as at 31 March 2016

3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2015/16 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Loans

	31 March 2015 Principal	Rate/ Return	31 March 2016 Principal	Rate/ Return
Fixed rate Funding				
-PWLB	£11.393m	7.33%	£10.325m	7.10%
-Market	£13.000m	4.37%	£13.000m	4.37%
Total Fixed	£24.393m	5.75%	£23.325m	5.58%
Variable rate Funding				
-PWLB	-	-	-	-
-Market	£64.500m	4.32%	£64.500m	4.32%
Total Variable	£64.500m	4.32%	£64.500m	4.32%
Total debt	***£89.893m***	***4.71%***	***£87.825m***	***4.65%***

	31 March 2015 Principal	Rate/ Return	31 March 2016 Principal	Rate/ Return
Total debt	*£89.893m*	*4.71%*	***£88.825m***	***4.65%***
CFR*	*£227.517m*		***£226.488m***	
Over / (under) borrowing	*(£137.624m)*		***(£137.663m)***	

* excluding historic school PFI schemes

The maturity structure of the debt portfolio was as follows:

	31 March 2015 Actual	2015/16 original limits %	31 March 2016 Actual	31 March 2016 Actual
Under 12 months	£0.365m	10%	£1.889m	2.15%
12 months and	£1.889m	30%	£1.639m	1.86%

within 24 months				
24 months and within 5 years	£4.770m	40%	£2.763m	3.15%
5 years and within 10 years	£3.205m	80%	£2.825m	3.22%
Over 10 years	£78.663m	100%	£78.709m	89.62%

Investments:

In house	£385.9m	0.73%	£379.8m	0.78%
External managers	£0.000m		£0.000m	
Total investments	***£385.9m***	***0.73%***	***£379.8m***	***0.78%***

The maturity structure of the investment portfolio was as follows:

	2014/15 Actual £000	2015/16 Original £000	31 March 2016 Actual £000
Investments			
Longer than 1 year	£20,000	£50,000	£25,000
Under 1 year	£365,900	£300,000	£354,800
Total	£385,900	£350,000	£379,800

4. The Strategy for 2015/16

4.1 The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

4.3 The actual movement in gilt yields meant that the general trend in PWLB rates during 2015/16 was an increase in rates during the first quarter followed by marked bouts of sharp volatility since July 2015 but with an overall dominant trend for rates to fall to historically low levels by the end of the year.

5. The Economy and Interest Rates

5.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 of 2015 but soon moving back to quarter 1of 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 of 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

5.2 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

5.3 The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling materially. These rates continued at very low levels during 2015/16.

5.4 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

5.5 The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

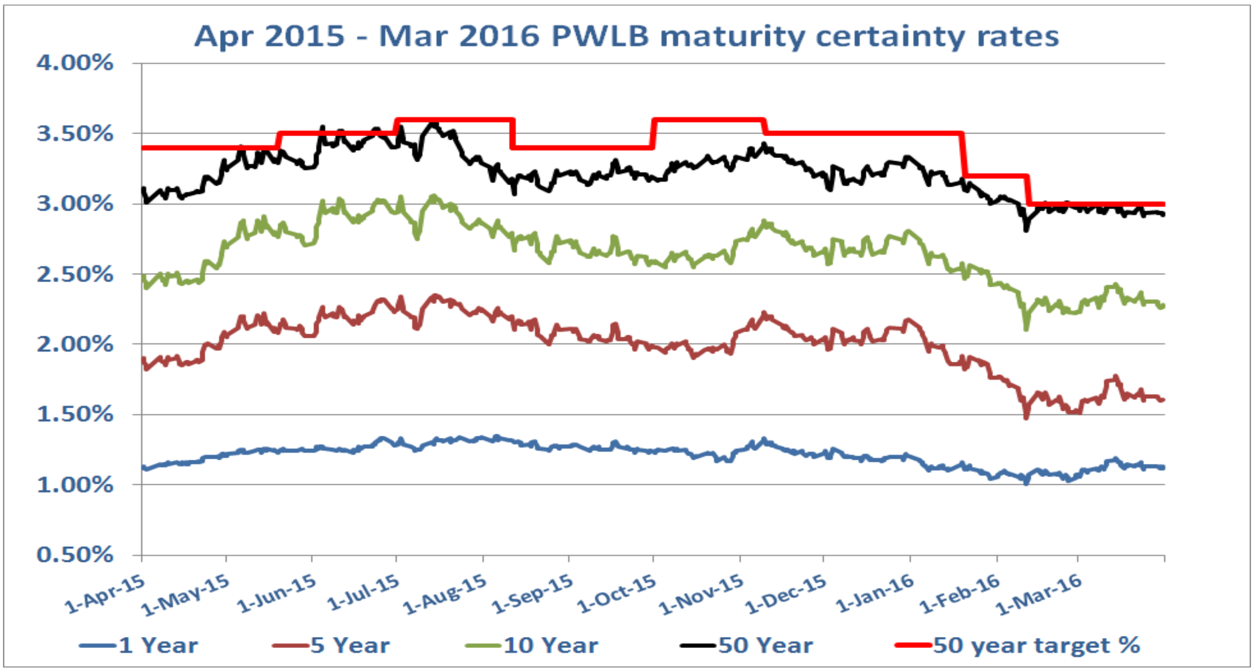
5.6 As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

5.7 On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.

5.8 The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

6. Borrowing Rates in 2015/16

6.1 **PWLB certainty maturity borrowing rates -** the graphs and table for PWLB rates below, show a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



7. Borrowing Outturn for 2015/16

7.1 **Treasury Borrowing** - Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

7.2 **Rescheduling -** No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

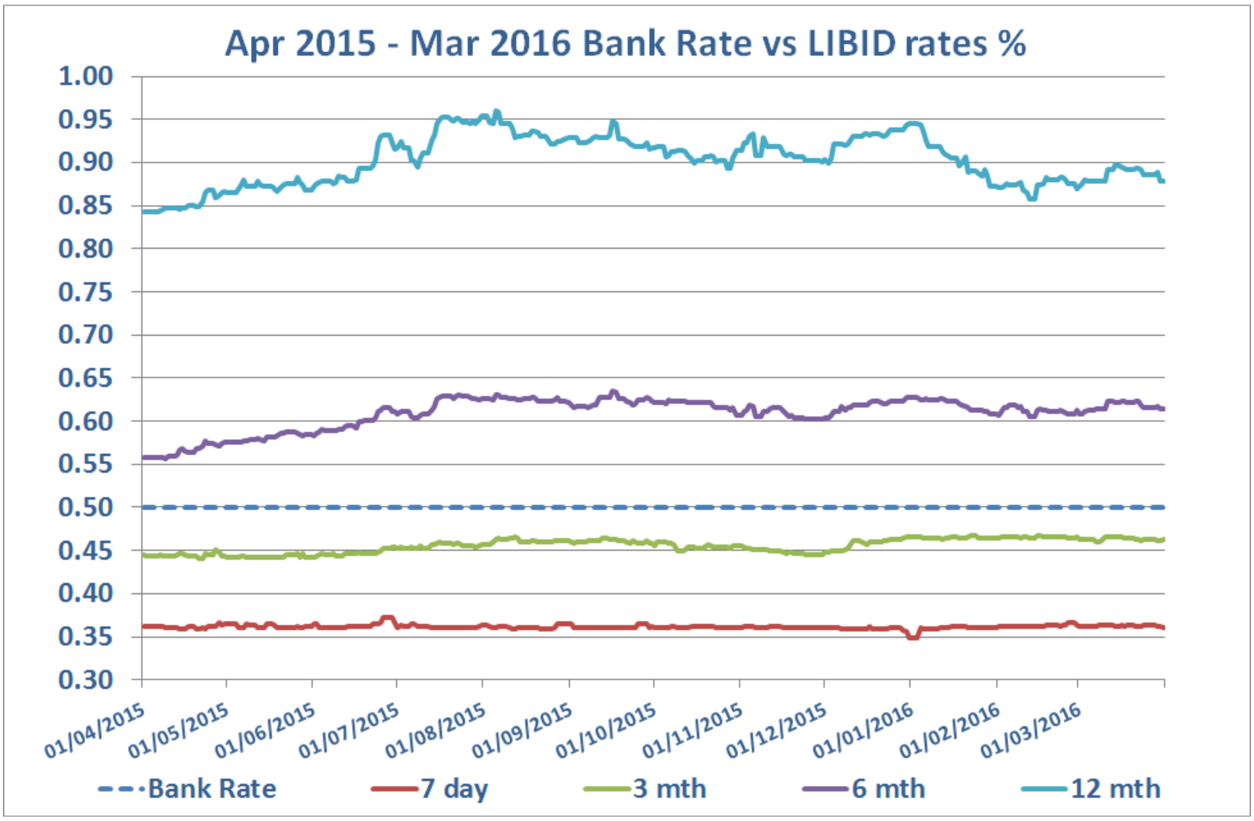
7.3 **Summary of debt transactions** – management of the debt portfolio resulted in a fall in the average interest rate of 0.06%, representing net reduced charges to the General Fund of £80,000 p.a.

8. Investment Rates in 2015/2016

8.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1, 2016 but then moved back to around quarter 2, 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.

Money market investment rates 2015/16

	7 day	1 month	3 month	6 month	1 year
1/4/15	0.361	0.381	0.445	0.559	0.843
31/3/16	0.361	0.386	0.463	0.615	0.878
High	0.372	0.389	0.468	0.635	0.959
Low	0.349	0.377	0.441	0.557	0.842
Average	0.361	0.383	0.456	0.609	0.902
Spread	0.023	0.012	0.027	0.078	0.117
High date	26/6/15	3/11/15	15/2/16	16/9/15	5/8/15
Low date	31/12/15	16/4/15	22/4/15	9/4/15	2/4/15



9. Investment Outturn for 2015/16

9.1 **Investment Policy** – the Council's investment policy is governed by CLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 25/02/2015. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps.

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 **Investments held by the Council** - the Council held an outstanding balance of £518.5m including pension fund balance of some £138m and maintained an average balance of £456.4m of internally managed funds. The internally managed funds earned an average rate of return of 0.78%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.36%. This compares with a budget assumption of £2.8m on cash balances earning an average rate of 0.70%.

9.4 **Pension Fund - Internal Cash Management** - Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBTH to meet working cash flows requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

9.5 The Pension Fund cash balance is invests in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2015, which is delegated to the Corporate Director of Resources to manage on a day to day basis within set parameters.

9.6 The cash balance as at 31 March 2016, was £148.3m. This constitutes working cash inflow and outflow of £9.6m, £98.7m redemption proceeds from Investec mandate and £40m of cash awaiting investment for funding new fixed income mandates. Goldman Sachs asset management is one of the new fund managers and £75m was transferred in April 2016 to fund the portfolio with this manager.

9.7 Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security of the Fund's cash remains the overriding priority, ahead of yield.

Investment performance for 2015/16

Period	LBTH Performance	Benchmark Return	Over/(Under) Performance
Full Year 2014/15	0.73%	0.35%	0.38%

Quarter 1 2015/16	0.76%	0.36%	0.40%
Quarter 2 2015/16	0.78%	0.36%	0.42%
Quarter 3 2015/16	0.79%	0.36%	0.43%
Quarter 4 2015/16	0.81%	0.36%	0.45%
Full Year 2015/16	**0.78%**	**0.36%**	**0.42%**

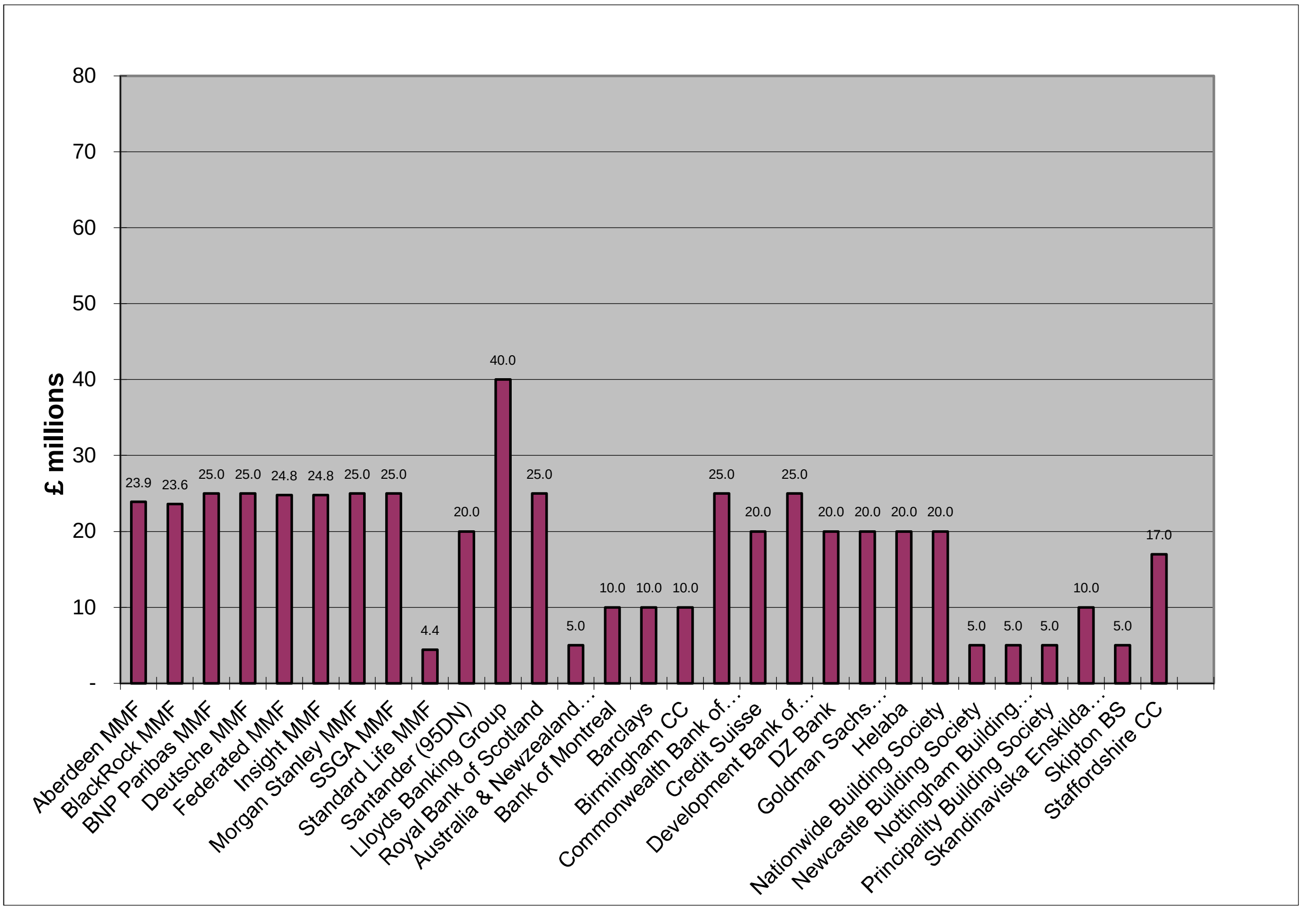
9.8 As illustrated above, the Council outperformed the benchmark by 42bps for this financial year. The Council's budgeted investment return for 2015/16 was £2.8m, and investment return for the year was some £1.2m above budget, mainly due to massive increase of average cash balance for investment.

9.9 The below Chart 1 shows the deposits outstanding with authorised counterparties as at 31st March 2016, of which 7.35% were with part-nationalised banks (RBS Groups). The council's treasury adviser has removed Lloyds banking group as part nationalised bank as the government stake with the group is less than 10%. Consequently the council revised the monetary and duration limits for this group to be in line with its credit worthiness policy. Based on the group credit ratings and the council credit worthiness policy, the current monetary limit is £20m for a maximum duration of 6 months.

9.10 The council has £40m of investment outstanding with the group as at 31st March 2016. The investments were undertaken prior to the change, that is, they were transacted when the bank met the council's treasury adviser classification criteria of a part nationalised bank, with monetary limit of £70m and duration of 2 years.

9.11 No more transactions are being carried out with the group. All outstanding deposits are less than one year to maturity; the outstanding investments would be run down to the council's monetary and time limits for the group, which is currently £20m and 6 months duration. As of today, the outstanding investment with the group is £5m to mature 12th August 2016.

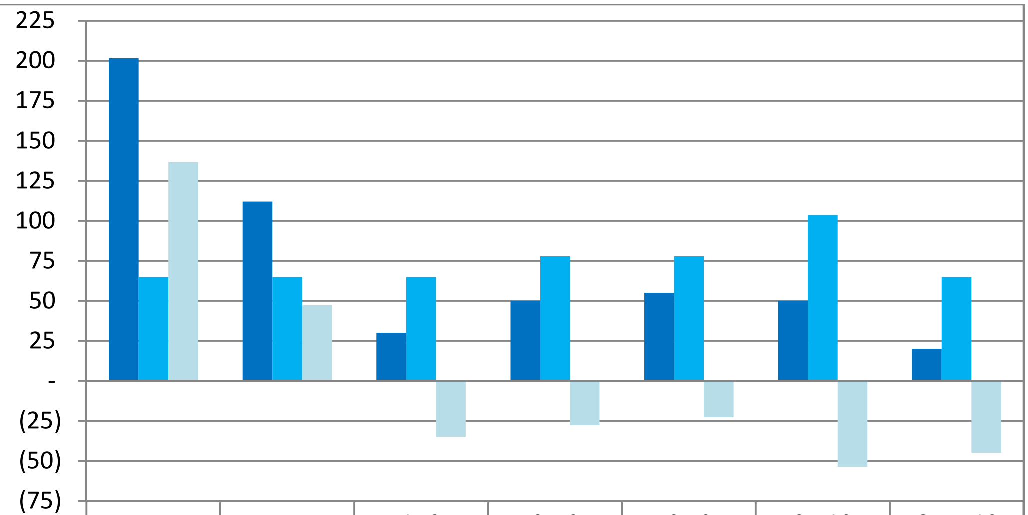
Chart 1 – Counterparty Exposure



9.12 Chart 2 below illustrates the maturity structure of deposits as at 31 March 2016; we have £201.5m (includes £138m pension fund cash balance) as overnight deposits, and this is basically all Money Market Funds.

9.13 The Weighted Average Maturity (WAM) for outstanding investment (excluding MMF) is 147 days for the month of March and 146 days for last month. This is the average number of outstanding days to maturity of each deal from 31 March 2016.

Chart 2 – Maturity Profile of Investments



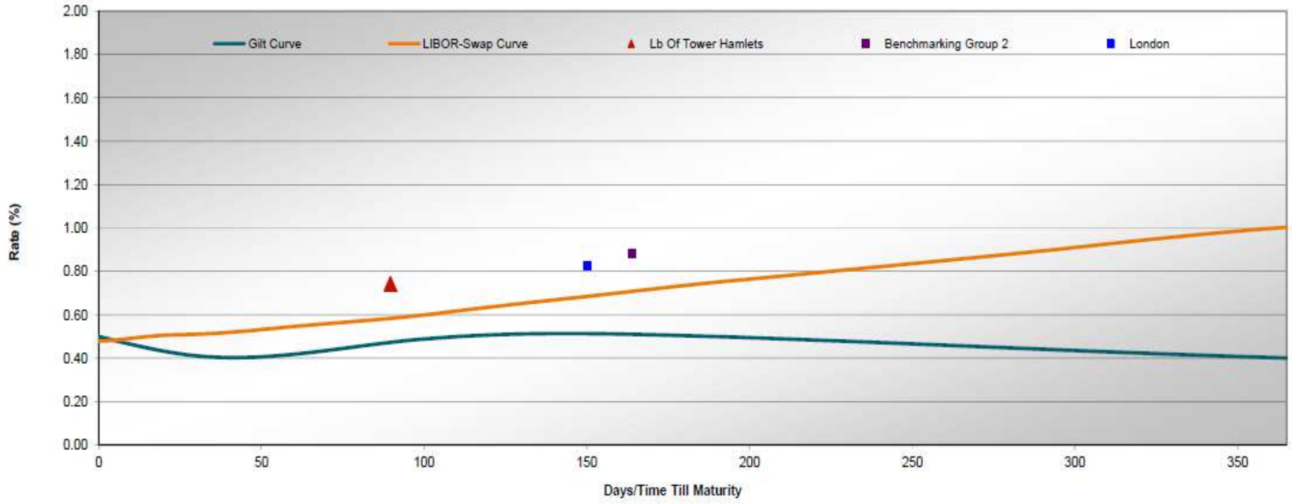
	O/Night	< 1 Month	1- 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	Over 12 Months
£m Portfolio Value	201.50	112.00	30.00	50.00	55.00	50.00	20.00
Portfolio Target £	64.81	64.81	64.81	77.78	77.78	103.70	64.81
Over/(Under) Target £	136.69	47.19	(34.81)	(27.78)	(22.78)	(53.70)	(44.81)
Portfolio Position %	38.86%	21.60%	5.79%	9.64%	10.61%	9.64%	3.86%

10. Investment Benchmarking Club

10.1 The Council participates in a benchmarking club to enable officers to compare the Council's treasury management /investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 March 2016. 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.

10.2 The below graph compared benchmarking club member' returns against the risk-free return and LIBOR curve. It can be seen that the weighted average rate of return (WARoR) for the council investments is 0.74% 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.

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



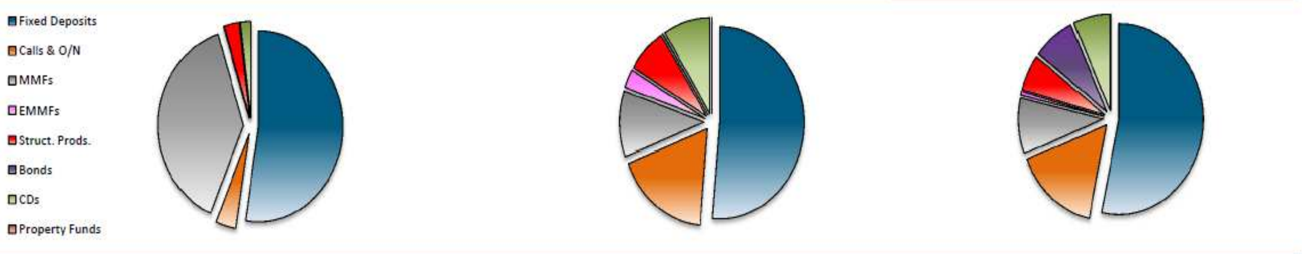
	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference Gilt	Difference LIBOR-Swap	Model Bands	Performance
Lb Of Tower Hamlets	0.74%	90	199	3.3	0.47%	0.58%	0.27%	0.16%	0.68% - 0.80%	Inline
Benchmarking Group 2	0.88%	164	350	3.8	0.51%	0.71%	0.37%	0.18%	0.83% - 0.95%	Inline
London	0.83%	150	321	3.6	0.51%	0.68%	0.31%	0.14%	0.79% - 0.91%	Inline

The below summary chart is comparing the council's investments portfolio with other London Boroughs. Basic portfolio characteristics (such as returns and risks), asset allocations and maturity profiles were compared.

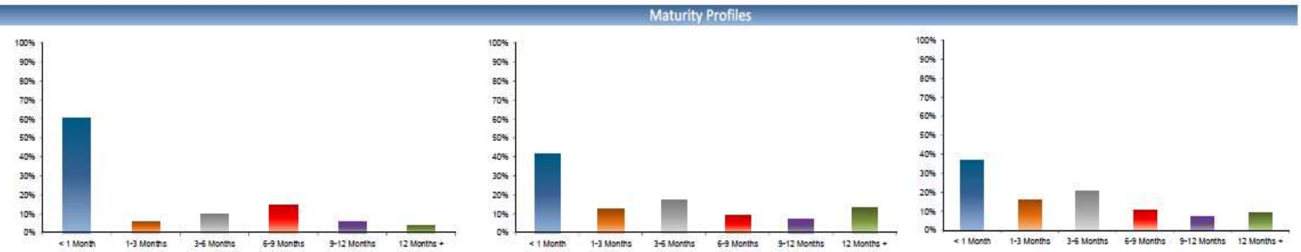
Summary Sheet

	Lb Of Tower Hamlets	Benchmarking Group 2 (14)	London (20)
		Basic Portfolio Characteristics	
WARoR	0.74%	0.88%	0.83%
WAM	90	164	150
WATT	199	350	321
WA Credit Risk	3.3	3.8	3.6
Model WARoR	0.74%	0.89%	0.85%
Difference	0.00%	-0.01%	-0.03%
Model Band	0.68% - 0.80%	0.83% - 0.95%	0.79% - 0.91%
Performance	Inline	Inline	Inline

Asset Breakdown



Maturity Profiles



Appendix 1: Prudential and Treasury Indicators

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

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

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 2 - Investments Outstanding as at 31 March 2016

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Aberdeen MMF		MMF	23.90	
	BNP Paribas MMF		MMF	25.00	
	Blackrock MMF		MMF	23.60	
	Deutsche MMF		MMF	25.00	
	Federated MMF		MMF	24.80	
	Insight MMF		MMF	24.80	
	Morgan Stanley MMF		MMF	25.00	
	State Street MMF		MMF	25.00	
	Standard Life MMF		MMF	4.40	
	SUB TOTAL			**201.50**	
< 1 Month	Development Bank of Singapore	04/01/2016	04/04/2016	10.00	0.60%
	Development Bank of Singapore	06/01/2016	06/04/2016	5.00	0.60%
	Staffordshire CC	30/03/2016	06/04/2016	17.00	0.55%
	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%
	Australia & New Zealand Bank	13/01/2016	13/04/2016	5.00	0.52%
	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%
	SUB TOTAL			**112.00**	
1 - 3 Months	Helaba	01/05/2015	03/05/2016	10.00	0.94%
	DZ Bank	04/01/2016	04/05/2016	10.00	0.60%
	Birmingham CC	30/03/2016	03/05/2016	10.00	0.55%
	SUB TOTAL			**30.00**	
3 - 6 Months	Santander (95DN)		Call - 95N	20.00	1.10%
	DZ Bank	04/01/2016	04/07/2016	10.00	0.69%
	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%
	Development Bank of Singapore	10/02/2016	10/08/2016	10.00	0.65%
	SUB TOTAL			**50.00**	
6 - 9 Months	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%
	Helaba	12/11/2015	11/11/2016	5.00	1.04%
	Principality Building Society	11/11/2015	11/11/2016	5.00	1.08%
	Goldman Sachs International Bank	12/11/2015	14/11/2016	10.00	0.95%
	Credit Suisse	20/11/2015	18/11/2016	10.00	1.03%
	Credit Suisse	25/11/2015	25/11/2016	10.00	1.00%
	SUB TOTAL			**55.00**	
9 - 12 Months	Skandinaviska Enskilda Banken	07/12/2015	07/12/2016	5.00	0.85%
	Bank of Montreal	15/03/2016	15/12/2016	10.00	0.72%
	Commonwealth Bank of Australia	15/12/2015	15/12/2016	5.00	0.91%
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74%
	Commonwealth Bank of Australia	23/02/2016	21/02/2017	5.00	0.90%
	Helaba	26/02/2016	27/02/2017	5.00	0.92%
	Commonwealth Bank of Australia	14/03/2016	14/03/2017	10.00	0.92%
	Skipton BS	23/03/2016	23/03/2017	5.00	1.02%
	SUB TOTAL			**50.00**	
> 12 Months	Royal Bank of Scotland**	05/05/2015	05/05/2017	5.00	1.42%
	Royal Bank of Scotland**	08/05/2015	08/05/2017	5.00	1.42%
	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%
	SUB TOTAL			**20.00**	
	GRAND TOTAL			**518.50**	

Appendix 3 – List of Approved Counterparties for Lending

as at 31/05/2016

Counterparty					Moody's Ratings		S&P Ratings	
			Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
Australia			AAA		Aaa		AAA	
	Banks	Australia and New Zealand Banking Group Ltd.	AA-	F1+	Aa2	P-1	AA-	A-1+
		Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+
		Macquarie Bank Ltd.	A	F1	A2	P-1	A	A-1
		National Australia Bank Ltd.	AA-	F1+	Aa2	P-1	AA-	A-1+
		Westpac Banking Corp.	AA-	F1+	Aa2	P-1	AA-	A-1+
Canada			AAA		Aaa		AAA	
	Banks	Bank of Montreal	AA-	F1+	Aa3	P-1	A+	A-1
		Bank of Nova Scotia	AA-	F1+	Aa3	P-1	A+	A-1
		Canadian Imperial Bank of Commerce	AA-	F1+	Aa3	P-1	A+	A-1
		National Bank of Canada	A+	F1	Aa3	P-1	A	A-1
		Royal Bank of Canada	AA	F1+	Aa3	P-1	AA-	A-1+
		Toronto-Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+
Denmark			AAA		Aaa		AAA	
	Banks	Danske A/S	A	F1	A2	P-1	A	A-1
Germany			AAA		Aaa		AAA	
	Banks	BayernLB	A-	F1	A1	P-1	NR	NR
		DZ BANK AG Deutsche Zentral-Genossenschaftsbank	AA-	F1+	Aa1	P-1	AA-	A-1+
		Landesbank Baden-Wuerttemberg	A-	F1	Aa3	P-1	NR	NR
		Landesbank Berlin AG			Aa3	P-1		
		Landesbank Hessen-Thueringen Girozentrale	A+	F1+	Aa3	P-1	A	A-1
		Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+
		Norddeutsche Landesbank Girozentrale	A-	F1	A2	P-1	NR	NR
		NRW.BANK	AAA	F1+	Aa1	P-1	AA-	A-1+
Netherlands			AAA		Aaa		AAA	
	Banks	ABN AMRO Bank N.V.	A	F1	A2	P-1	A	A-1
		Bank Nederlandse Gemeenten N.V.	AA+	F1+	Aaa	P-1	AAA	A-1+
		Cooperatieve Rabobank U.A.	AA-	F1+	Aa2	P-1	A+	A-1
		ING Bank N.V.	A	F1	A1	P-1	A	A-1
		Nederlandse Waterschapsbank N.V.			Aaa	P-1	AAA	A-1+

Singapore		AAA		Aaa		AAA	
Banks	DBS Bank Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+
	Oversea-Chinese Banking Corp. Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+
	United Overseas Bank Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+
Sweden		AAA		Aaa		AAA	
Banks	Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+
	Skandinaviska Enskilda Banken AB	A+	F1	Aa3	P-1	A+	A-1
	Svenska Handelsbanken AB	AA-	F1+	Aa2	P-1	AA-	A-1+
	Swedbank AB	A+	F1	Aa3	P-1	AA-	A-1+
Switzerland		AAA		Aaa		AAA	
Banks	Credit Suisse AG	A	F1	A1	P-1	A	A-1
	UBS AG	A	F1	Aa3	P-1	A	A-1
United Kingdom		AA+		Aa1		AAA	
AAA rated and Government backed securities	Debt Management Office						
Banks	Abbey National Treasury Services PLC	A	F1	A1	P-1		
	Bank of Scotland PLC	A+	F1	A1	P-1	A	A-1
	Close Brothers Ltd	A	F1	Aa3	P-1		
	Goldman Sachs International Bank	A	F1	A1	P-1	A	A-1
	HSBC Bank PLC	AA-	F1+	Aa2	P-1	AA-	A-1+
	Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1
	Santander UK PLC	A	F1	A1	P-1	A	A-1
	Standard Chartered Bank	A+	F1	Aa3	P-1	A	A-1
	Sumitomo Mitsui Banking Corporation Europe Ltd	A	F1	A1	P-1	A	A-1
	UBS Ltd.	A	F1	A1	P-1	A	A-1
Building Society	Coventry Building Society	A	F1	A2	P-1		
	Cumberland Building Society						
	Leeds Building Society	A-	F1	A2	P-1		
	Nationwide Building Society	A	F1	A1	P-1	A	A-1
	Newcastle Building Society	BB+	B				
	Nottingham Building Society			Baa 1	P-2		
	Principality Building Society	BBB+	F2	Baa 3	P-3		
	Progressive Building Society						

	Skipton Building Society		BBB+		F2		Baa2		P-2				
	West Bromwich Building Society						B1		NP				
	Yorkshire Building Society		A-		F1		A3		P-2				
Nationalised and Part Nationalised Banks	National Westminster Bank PLC		BBB+		F2		A3		P-2		BBB+		A-2
	Royal Bank of Scotland Group Plc		BBB+		F2		Ba1		NP		BBB-		A-3

Appendix 4 - 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 to borrow 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 &	The main inflation rate used in the UK is the CPI. The

Retail Prices Index (CPI & RPI)	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.
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
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 are for the purpose of promoting economic development
Treasury bills (or T-bills)	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.

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Non-Executive Report of the: ***Audit Committee*** *28th June 2016*	TOWER HAMLETS
Report of: *Zena Cooke - Corporate Director - Resources*	***Classification:*** *Unrestricted*
Internal Audit Annual Report for 2015/16	

Originating Officer(s)	*Minesh Jani and Bharat Mehta*
Wards affected	*All wards*

1. Summary

1.1 This report provides the annual internal audit opinion in accordance with the Public Sector Internal Audit Standards. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).

1.2 The report concludes that the Council has an adequate system of internal control which was in operation throughout 2015/16. The Head of Audit opinion is attached to this report at appendices 6 and 7 of this report.

2. Recommendation

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

3. Reasons for the Decisions

3.1 The Audit Committee can gain assurance around the work of the Council's internal audit activity and ask questions around the systems of control operating within the Council.

4. Alternative Options

4.1 That the Committee declines to note the content of this report.

5. Introduction

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

5.2 This report is set out as follows:

- **Opinion and basis of opinion**
- **Summary of audit work undertaken in 2015/16**
- **Appendix 1 - Audit Charter and Internal Audit Strategy,** setting out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.
- **Appendix 2 - Audit Resources**
- **Appendix.3 -Summaries of reports not previously reported.** Summaries of all audit reports are submitted to the CMT and Audit Committee.
- **Appendix 4 – Follow Up Audits**
- **Appendix 5 – List of planned audits undertaken in 2015/16.**
- **Appendix 6 – Summary Head of Audit Opinion.**
- **Appendix 7 – Detailed Head of Audit Opinion.**
- **Appendix 8 – Benchmarking club/headline.**

6. Statement of Responsibility

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

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

7. Opinion

7.1 It is my opinion that I can provide reasonable assurance that the authority has an adequate system of internal control and that this was operating effectively during 2015/16. The basis for this opinion is set out below.

8. Basis of Opinion

8.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2015/16. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.

8.2 Internal audit work has been carried out in accordance with the Public Sector Internal Audit mandatory standards for Internal Audit in Local Government.

8.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.

8.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the External Auditors and other inspectors pertaining to or reported during 2015/16. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at Appendices 6 and 7.

9. Audit Resources

9.1 The resources available to Internal Audit are set out in appendix 2 below. Internal Audit is provided in partnership with Mazars as part of Croydon Framework contract. An in-house team of four auditors works with resources provided under the Croydon framework arrangement.

9.2 The resources made available were adequate for the fulfilment of the Authority's duties although for the 2015-16 financial year, the resources had been increased in view of the Directions set out by the Secretary of State to support the work of the Council.

9.3 Productivity was maintained at planned levels. Sickness absence in the team was 2.9 days per person on average, compared with 3.6 days per person the previous year.

9.4 During the year, there was an emphasis on carrying out risk based audits from the approved audit plan for 2015/16, which reflects the internal audit strategy in providing assurance to the Council over its systems of internal control to manage risks. In addition, a number of specific pieces of audit work were commissioned by Corporate Directors. Details of the work done are attached at Appendix 4.

10. Summary of Audit Work

10.1 A list of the audits undertaken in 2015/16 is attached to main body of the report at Appendix 5 including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and Full. Audits are also categorised by the significance of the systems. These are defined in Appendix 2.

10.2 Summaries of the finalised audit reports are reported quarterly to CMT and the Audit Committee. Appendix 3 provides the summaries of those reports finalised in the period March to May 2016.

10.3 A summary of the audit assurance resulting from audit reports in 2015/16 is provided in the table below.

Audits 15/16		Full	Substantial	Limited	Nil	N/A
Significance	Extensive	2	43	9	0	1
	Moderate	3	29	7	1	2
	Low	0	0	0	0	0
	Total	5	72	16	1	3

10.4 The table shows that of 97 systems audits where we have issued final audit reports, 80% of the systems audited achieved an assurance level of full or substantial. Full or substantial assurance means that an effective level of control was in place, although this does not mean the systems were operating perfectly. 18% of systems audited were rated as limited or nil assurance, and the remainder 2% related to audits where an assurance was not given. In addition there are seven audits currently at draft report stage and their assurances have not been factored into the above table as these assurances are waiting to be agreed and two audits rolled forward into 2016/17 at management request. In total Internal Audit completed 105 pieces of audits during the financial year 2015/16.

10.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses.

10.6 From the Internal Audit work during 2015/16 financial year, we identified risks in the Council's systems in a number of areas including Monitoring and Management of Public Health contracts; Highways Repairs and Maintenance; Pay by Phone Contract Monitoring; Control of Cash Income and Disbursements; Controls around Youth Offending Service; Signing and Sealing of Legal Contracts; and Procurement and Contract Monitoring.
Further information is provided at Appendix 7. Management have given commitment to implement our recommendations and this should in turn improve control environment in these areas.

10.7 From our Internal Audit work during 2015/16, we can provide an overall assurance that Tower Hamlets has a reasonably effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to audit recommendations.

11. Audit Performance

11.1. Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2015/16 is set out in the table below.

Performance Measure	**2015/16**	
	Target	**Actual**
Percentage of operational plan completed (to at least draft report stage) in the year	100%	100%
Percentage of priority 1 recommendations followed up that have been implemented by 6 month review date	100%	78%
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	87%

11.2 As at the 31st March 2016, 100% of the operational plan was completed in terms of days used as a number of unplanned audits were performed. There were a few audits still in progress, but have now been completed/ or are awaiting management comments.

11.3 Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. For 2015/16 as a whole, 78% of priority 1 recommendations had been implemented against a target of 100%, and 87% of priority 2 recommendations had been implemented against a target of 95%. Appendix 4 lists the results of those follow up audits finalised since the last Audit Committee meeting. Corporate Directors are being regularly updated with the progress and performance of follow up audits and Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review. The S151 has noted the performance and has asked the Head of Audit and Risk Management to advise on further steps to improve on the implementation of recommendations.

11.4 The budget outturn is set out in Appendix 2. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. The results of benchmarking exercise for 2015/16 are attached at Appendix 8.

12. Comments of the Chief Financial Officer

12.1 This is the annual report from the Head of Internal Audit on audit activities carried out during 2015-15. Audit Committee are asked to note the contents of this report. There are no financial implications as a consequence of this report.

13. Legal Comments

13.1 This report supports the Annual Governance Statement. The Head of Internal Audit is required by the Public Sector Internal Audit Standards 2013 to provide an annual audit report setting out their opinion on the effectiveness of the Council's system of internal control. The report assists the Council in meeting its duties under Part 2 of the Accounts and Audit Regulations 2015 to ensure that its financial management is adequate and that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.

14. One Tower Hamlets

14.1 There are no specific one Tower Hamlets considerations.

14.2 There are no specific Anti-Poverty issues arising from this report.

15. Best Value Implications

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

16. Risk Management Implications

16.1 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.

17. Sustainable Action for a Greener Environment (SAGE)

17.1 There are no specific SAGE implications.

18. Crime and Disorder Reduction Implications

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

Appendix 1

Internal Audit Charter

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

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

Purpose

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

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

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

Authority

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

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

Responsibility

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

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

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

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

Reporting

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

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

Independence

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

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

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

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

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

Due Professional Care

The Internal Audit function is bound by the following standards:

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

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

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

Internal Audit Strategy

This Strategy sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter. The Strategy will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Corporate Director, Resources to support him in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs. It is the Council's intention to provide a best practice, cost efficient internal audit service.

Internal Audit's Remit

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Head of Audit and Risk Management), Internal Audit will:

- Provide management and members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.

- Assist the Audit Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;

- Drive organisational change to improve processes and service performance;

- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;

- Work closely with other assurance providers to share information and provide a value for money assurance service; and

- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit must ensure that it is not responsible for the agreed design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

Service Delivery

The Service will be delivered by the Council's internal audit team and the Council's strategic internal audit partner (currently Mazars) under the direction of the Council's Head of Internal Audit and Risk Management and supported by the Audit Manager.

To ensure that the benefits of the Internal Audit service are maximised and shared as best practice, Tower Hamlets will participate in the London Audit & Anti-Fraud Partnership to work with other local authorities on a shared service basis. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

Internal Audit Planning

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Management Team (CMT) and Management;

- The Council's Risk Register;

- Outputs from other assurance providers;

- Requirements as agreed in the joint working protocol with External Audit

- The Head of Internal Audit and Risk Management or his deputy will attend all Departmental Management Team meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan.

The Internal Audit Plan 2015-16 is composed of the following:

- Risk Based Systems Audit: Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered with other organisations.

Internal Audit planning is already significantly based on the Council's risk register. Internal audit will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process.

- Key Financial Systems: Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.

- Probity Audit (schools & other establishments): Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.

- Computer Audit: The review of ICT infrastructure and associated systems, software and hardware.

- Contract Audit: Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.

- Fraud and Ad Hoc Work: A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.

- Knowledge and Insight: The Head of Audit and Risk Management, in conjunction with the Internal Audit and the Corporate Fraud teams, will use the knowledge and insight gained of the organisation and carry out reviews in specific areas.

Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the Audit Committee on a quarterly basis. Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the Audit Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

Appendix 2

Internal Audit – Resources 2015/16

		Revised Plan	%	Outturn	%
	In-house staff days	1398	*73%*	1439	*68%*
	Mazars	505	*27%*	679	*32%*
	Gross days	**1903**		**2118**	
less	Leave	175	*64%*	170	*57%*
less	Sickness absence	18	*7%*	18	*6%*
less	Non Operational Time	80	*29%*	109	*37%*
	Unproductive time	**273**		**297**	
Net productive days		**1630**		**1821**	

Internal Audit Budget 2015/16

	Budget £000	Actual £000	Variance £000
Salaries	**424**	**424**	**-**
Contract costs	**241**	**203**	**+38**
Running costs	**24**	**11**	**-13**
Central Recharges	**150**	**150**	**0**
Gross cost recharged	**839**	**864**	**+25**

Internal Audit Reports 2015/16 – Summary of Audit Reports

Assurance ratings

Level

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

Significance ratings

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

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.

Appendix 3

Summaries of 2015/16 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title
Nil	Moderate	Communities, Localities and Culture	Community Languages
Limited	Extensive	Communities, Localities and Culture	Pay by Phone – Contract Monitoring
	Moderate	Communities, Localities and Culture	Pest Control – Follow Up Audit
SUBSTANTIAL			
	Extensive	Development and Renewal	Client Monitoring of THH Follow UP
	Extensive	Development and Renewal	Watts Grove – Current Contract on Construction of New Affordable Homes
	Extensive	Tower Hamlets Homes	Out of Hours Repairs Follow Up
	Extensive	Tower Hamlets Homes	Unauthorised Occupancy Follow Up
		Tower Hamlets Homes	Planned Maintenance Follow UP
	Extensive	Resources	Payroll Account Reconciliation – Follow Up audit
	Extensive	Resources	Treasury Management
	Extensive	Resources	Business Rate Retention Scheme Follow Up
	Extensive	Resources	Housing Rents
	Extensive	Resources	General Ledger
	Extensive	Resources	Payroll
	Extensive	Resources	Debtors
	Extensive	Resources	Mainstream Grants Programme
	Moderate	Communities, Localities and	Transport Services Follow Up

Assurance level	Significance	Directorate	Audit title
		Culture	
	Moderate	Corporate	Use of Taxis by Council Staff – Follow Up
	Moderate	Education, Social Care and Wellbeing	Cleaning Services Follow Up
	Moderate	Education, Social Care and Wellbeing	Mowlem Primary School
	Moderate	Education, Social Care and Wellbeing	Bygrove Primary School
	Moderate	Education, Social Care and Wellbeing	Christ Church Primary School
	Moderate	Education, Social Care and Wellbeing	Chisenhale Primary School
	Moderate	Education, Social Care and Wellbeing	Ian Mikardo High School
	Moderate	Education, Social Care and Wellbeing	Bangabandu Primary School
FULL	Moderate	Development and Renewal	Landlord Incentive Scheme Follow Up

Nil Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Community Languages	June 2016	The Community Language Service (CLS) provides four separate educational programmes to school children across the borough, as follows: - Out of School Language Classes; Early GCSE Programme; Primary Modern Languages; and First Language Assessment Service for Newly Arrived and Under Achieving EAL (English as Additional Language) Children. From September 2014 until June 2015 the CLS was under management review and the team worked with Idea Store Learning to identify the areas of most concern. In June 2015 the Deputy Head of Idea Store Learning assumed the line management of the CLS Team. The objective of the audit was to provide assurance to management as to whether the systems of control around the CLS system are sound, secure and adequate and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. Key findings arising from the audit were: - • Effective methods of measuring the performance of the service and key performance indicators have not been put in place. In addition, the value for money achieved by the service as a whole or in respect of individual classes is not effectively measured; • A number of issues were identified in respect of the service level agreements (SLAs) held with the provider organisations, such as not being returned in a timely manner, not being signed / signed by people unauthorised to do so, etc. In addition, the SLAs do not specify the terms and conditions under which the SLA is to operate; • There was no evidence that the student attendance registers were continually monitored. Although monitoring visits had been made by the CLS staff, visit reports were not prepared. As such there was no evidence that registers had been checked against student work during these visits;	Moderate	Nil

		• There is no process in place to effectively monitor the existence of valid child protection policies at provider organisations; • Ineffective authorisation procedures are in place in respect of the payment of claims; • From the DBS details of all the permanent tutors, it was found that in the case of eight tutors, the DBS checks had expired and they were still taking classes without updated DBS checks being obtained. Upon testing 11 tutor appointments, in three instances it was found that the DBS certificate information was not destroyed by secure means and the copy of the certificate was found to still be held on file; • There is no evidence of the procedure note documents being formally approved by senior management or Human Resources (HR); and • The process for organising monitoring visits is not robust. All findings and recommendations were agreed with the Service Head - Culture Learning and Leisure and the final report was issued to the Corporate Director, Communities, Localities and Culture.		

Management Comments

The Community Languages Service (CLS) was transferred from ECSW to CLC in May 2013. Within months of the transfer it was clear that there were serious issues regarding the CLS that had not been addressed and poor practice with low levels of transparency being allowed to be continued for many years prior to it coming over to CLC. It was found that the service had been managed without adhering appropriately to scrutiny, rigour or to the standards required of it by the Council's policies and procedures and that inadequate corporate systems and HR support services were part of the problem rather than being effective in preventing it. The audit was requested by the Service Head (CLL) following an initial review of the Community Languages Service and serious concerns raised by Head of Idea Store. It was recognised that, prior to any fundamental service redesign being developed, the key issues of

- the internal systems (administration and management) of the Out of School Service and Early GCSE programme
- the quality of teaching and learning
- Safeguarding and Prevent

would need to be fully addressed.

To this end, two pieces of work were commissioned by the service in January 2016:

1) The Review of Teaching and Learning – carried out by Judicium Education School Improvement, an external organisation, commissioned by Idea Store Learning;

2) The Audit of the Community Language Service – carried out by Internal Audit

Idea Store management initiated a work programme with corporate HR to bring the CLS DBS checks up to date and this was completed in September 2015. All staff received Safeguarding training, new Safeguarding guidelines and materials were produced and Prevent (WRAP) staff training was delivered by December 2015. All provider agencies have been written to confirming their requirements and responsibilities in relation to prevent and safeguarding and retaining signed SLAs.

The audit is one piece of the wider service improvement work undertaken by CLC management to address the lack of review and poor performance of the CLS going back over many years. It was commissioned in order to confirm and support case for change needed in the CLS. Over the coming months the service will go through a fundamental whole system redesign with key considerations being given to the purpose and need for the service as well as the desired outcomes it should be achieving.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pay By Phone Contract Monitoring	May 2016	The objective of this audit was to provide assurance that the systems for controlling and monitoring the contract for collection and processing of electronic income are sound, secure and adequate. The Council has entered into a contract from 01/12/12 to 30/11/17 with Pay by Phone which facilitates the payment by customers for parking in any of the Council's pay and park parking bays plus car parks by using their mobile telephone and pre-registered debit or credit card. The income for 2015/16 was some £3M. Our testing highlighted the following issues:- 1. There were no documented systems and procedures for staff to monitor the contract and the income collected through the system. This key weakness resulted in total reliance on reports and information from the contractor without any independent verification. 2. There was no monitoring arrangement to ensure that each day's income had been banked promptly, were in accordance with contractual conditions and that this income was accounted for appropriately in the Council's GL System. 3. Refunds were being deducted from the gross income due to the Council and the audit trail in this area was poor. There was no effective system for checking, monitoring and accounting for refunds. 4. There was no effective system for processing chargebacks in cases where merchant banks have not honored the transactions e.g. stolen cards .When the contractor is informed about the chargebacks, the user's account is blocked and chargeback is deducted from the income received for that day. Although the contract requires the contractor to indemnify the Council against loss of income arising from chargebacks, no such indemnification appeared to be in place. All findings and recommendations were agreed with the then Service Head - Public Realm and the final report was issued to the Corporate Director , Communities, Localities and Culture.	Extensive	Limited ⇕

Management Comments

We feel that appropriate resources have now been deployed to implement the recommendations outlined. This is however, an automated system used by the contractor, and involves the contractor only collecting data, with no exposure to monies. Therefore the risk of monies being misappropriated is minimal, which has been identified through subsequent reconciliations. We do appreciate that fully robust systems are required to monitor these transaction, and these are being implemented, with the remaining actions being planned as agreed.

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pest Control Follow Up Audit	Mar 2016	A full systems audit on Pest Control was undertaken as part of the 2013/14 internal audit plan, for which the final report was issued in June 2014. This audit area was assigned a limited assurance audit opinion, based on the findings and the recommendations raised. This report presented the findings and recommendations of the follow up audit, conducted in May 2015; the objective was to assess whether the agreed recommendations at the conclusion of the internal audit had been implemented. The Pest Control service offers advice and services to residents and businesses about how to eradicate insects, rodents and other potential health hazards. The service provides effective treatments for certain types of pests and can help with identifying pests and providing information to householders. They will carry out home visits and treat any infestations of rats, mice, cockroaches, bed bugs and pharaoh ants. The service is still free for most residents. However, it has been necessary to introduce charges for some customers. All services are still free for all state pensioners who live on their own. The service is also free for the treatment of rat infestations, whether the rat is in a dwelling, garden or other outdoor area. Services to both tenants and leaseholders of Tower Hamlets Homes (THH) remain free of charge. Services are also free for tenants and leaseholders of a number of Registered Social Landlords (RSLs) which have service level agreements in place with the Council: This follow up audit was undertaken as part of the 2015/16 internal audit plan. Our follow up review showed that of the one high priority and four medium priority recommendations made at the conclusion of the follow up audit, none of the recommendations had been fully implemented, although four of them had been partly implemented. Following our testing, we have made a further five recommendations. The areas of weakness are as follows;	Moderate	Limited ⇦

		• Properties records are not being updated on Siebel. • The SLA between the Council and its ALMO (THH) expired in 2013 and is yet to be renewed. From our audit testing, we noted that in two out of eight cases tested, the Council did not hold a signed and current service level agreement with the RSL in respect of pest control services. • There are currently around 6,000 open cases that are over six months and need to be reviewed to consider closure. • Evidence in relation to detailed costing activity undertaken to determine the RSL charging rate has not been retained. • Procedure documents are not up to date reflecting the need to undertake the verification exercise. In addition, Pest Control Supervisors do not maintain appropriate records when checking the work of the Pest Control Officers (PCOs) on a daily basis All findings and recommendations were agreed with the Manager for Pest Control and Laundry Services, and the Head of Consumer and Business Regulations Service and reported to the Service Head, Safer Communities, and the Corporate Director, Communities, Localities and Culture.		

Management Comments

- Information is awaited from the ICT Client Team about their discussions with Agilisys to carry out updates with no extra charge. Agilisys are currently upgrading all 14 Siebel Servers from 2003 to 2008, to be completed by the end of June. Once this work is completed they will be in a better position to look at our requirement/enhancements to the system. With regards to the future of Siebel, the latest update in May is that they are considering Siebel Cloud, which is the new improved version of Siebel. The matter will be further discussed at the next Siebel User Group meeting. The cost implication to the business of not keeping THH property records up to date is likely to be small, compared to the cost to the service to pay for regular THH property updates. The risk is where THH have handed over properties to other registered Providers that are not under contract to the service, but they are still shown as THH/ALMO on Siebel. There is however a very significant cost and reputational implication to the business of not updating the properties on Siebel for the RSLs that are under contract to the service.
- The SLA with THH has yet to be completed but the contract is rolling over. Six SLAs with RSLs have signed contracts. of the 2 outstanding SLAs with RSLs, Swan has terminated the agreement, and I am consulting with Legal about the SLA document with East End Homes.
- We will resubmit the WPR to Agilisys to reconfigure Siebel to automatically close all cases in future where there has been no activity for

6 months. This reconfiguration will cost the service approx. £4,500 and is unlikely to make a saving to the budget. There is not a cost implication to the business of cases remaining open on Siebel, so there is no financial reason for undertaking this database clean.

- This is a commercially competitive rate benchmarked against other similar contract at other Local Authorities. There is a very high risk we could lose the current contracts if we increase the RSL rate significantly, and we can't afford to decrease the rate. Swan Housing Association has recently terminated their SLA with us and previously Circle 33 terminated theirs with us, both giving financial reasons.
- We will resubmit the WPR to Agilisys to reconfigure Siebel to set up an OAP tick box for contact centre staff to mark when a free treatment is given to an OAP, and then a tick box for the PCO to verify at the visit.This reconfiguration will cost the service approx. £3,000 and is unlikely to make a saving of this amount.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Client Monitoring of THH Contract Follow Up audit		This audit followed up the recommendations made at the conclusion of the original audit finalised in April 2015. Our testing showed that out of 3 medium priority recommendations made in the final audit report, all three had been progressed. However, the full embedding of the associated controls is still required. Our testing showed that the ALMO Client Procedures were updated, version controlled and finalised in April 2015. The Accounting Protocols had been updated with changes made since the inception of the Management Agreement. A document called “Protocol Between LBTH and THH with Respect to Internal Audit Reports and Recommendations” was provided to Audit. However, we noted that the Protocol document was not dated and version controlled. Moreover, there was no evidence to show that the Protocol was discussed at any of the governance meetings and that a standing agenda item on Internal Audit Matters was still required. The THH Business Continuity Plans had been updated, but it was not clear how LBTH monitors that the plans are periodically tested by THH. All findings and recommendations were agreed with the Service Head, Strategy and Regeneration and final report was issued to Corporate Director of Development and Renewal.	Extensive	Substantial ⇔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Watts Grove Current Contract Audit on Construction of New Affordable Homes	March 2016	This project involves the construction of 148 affordable homes. The contract for this work was awarded on 10th December 2014 for £23,210.758 on a fixed cost basis. The Cabinet at a meeting on 4th February 2015 approved additional costs of £868,000 bringing the revised total to £24,078,758. The current forecast is £26,607,000. The objective of this audit was to provide assurance that there were sound systems and controls in place for managing and monitoring the contract. Our review found that there was evidence of adequate on-site control arrangements and evidence of Health and Safety monitoring at the site by the contractor. There were regular and detailed reports by the managing agent with ad hoc visits by the council's project officer. Regular, documented client contractor meetings were taking place at which all relevant issues were discussed. We also noted that all variations to date had been appraised and approved and could be substantiated; interim payments were supported by evidence provided by the managing agent; and reviews of the project financial and construction profiles were carried out by the councils' project manager. However, we noted that there was no corporate guidance on the checking of the Health and Safety Executives' enforcement web site for any relevant information on the contractors' previous health and safety records. We have also recommended that the responsible client officer should have formal performance and contract monitoring meetings with Employer's Agent and that formal minute should be kept of these meetings. All findings and recommendations were agreed with the Service Head, Asset Management and Capital Delivery and final report was issued to the Corporate Director, Development and Renewal.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Out of Hours Repairs Follow Up Audit	April 2016	Tenants are able to report by telephone the need for emergency repairs to their properties outside of normal working hours. Out of hours call handling is undertaken by an external contractor, General Dynamics Information Technology (GDIT). GDIT has a contract in place with LB Tower Hamlets (LBTH) to provide a holistic out of hours call handling service, and THH makes use of the services of GDIT under the terms of a service level agreement with the Council. GDIT is responsible for confirming that the reported issue is a genuine emergency and cannot be resolved on the next working day, and then obtaining sufficient details from the tenant or leaseholder and passing these to the relevant contractor to action. A detailed system is in place to allow this role to be performed by non-technical staff and to ensure that all the necessary information is obtained during the call. The repairs contractor, Mears, is then responsible for attending the site within the specified timeframe of one hour, making safe the issue reported, and recording the outcomes of the repairs visit and any further action to be taken on the Northgate SX3 system. The Council's Contact Centre is responsible for monitoring the performance of GDIT as well as the repairs contractors, and for resolving any issues or complaints received from service users.. A full systems audit on the Tower Hamlets Homes (THH) Out of Hours Repairs was undertaken in November 2014, as part of the 2014/15 internal audit plan. This audit assigned Substantial Assurance to the area, based on the findings and the recommendations raised. This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented. This follow up audit was undertaken as part of the 2015/16 internal audit plan. Our follow up review showed that of the five medium priority recommendations made at the conclusion of the follow up audit, three medium priority recommendations had been fully addressed, and the remaining two had been partly implemented. The main issues arising from our work were as follows;	Extensive	Substantial ⇔

		• From testing conducted on a randomly selected sample of five calls received by GDIT as per the daily reports sent to LBTH, it was found that in four cases there were no timely records created on Northgate SX3 by the contractor Mears. In two instances there were no records created for the calls, and in another two instances the work orders were recorded after completion. • From testing of the same sample of five calls, it was found that in one case the GDIT system had not retained a recording of the call received from the service user on the Local Government Shared Portal. There was evidence of ten calls being sampled by LBTH Contract Centre Manager on a weekly basis (40 calls per month). All findings and recommendations were agreed with the Head of Repairs and reported to the Director of Neighbourhoods, the Director of Finance and the Chief Executive.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Unauthorised Occupancy	Apr 2016	Tower Hamlets Homes (THH) is responsible for the provision of 22,000 rented and leasehold homes on behalf of London Borough of Tower Hamlets (LBTH), with 50% of the stock relating to rented properties. The provision of tenancies for social housing and the methods used for recovering unlawfully sublet properties are under increased scrutiny as the demand for social housing far outweighs the supply. Under the Prevention of Social Housing Fraud Act 2013, the sub-letting of Council housing is now a criminal offence with the guilty facing criminal records, fines and prison sentences. Various methods or triggers are utilised by THH in order to detect suspicious cases of illegally occupied properties and tenancy fraud. Suspicious cases are referred to the Fraud Investigation Team based at LBTH with Legal Services providing assistance where necessary and undertaking prosecutions. THH continually monitors performance in relation to service provision and this includes the actions taken to recover illegally occupied homes. THHs' Executive Management Team (EMT) and the Neighbourhood Management Team (NMT) receive this performance information at their monthly meetings via detailed written reports and the use of a dashboard comprising key performance indicators (KPIs). One of the KPIs monitors the number of recovered illegally occupied homes. As per the latest report, 18 recovered properties were achieved to date against a target of 50 for the 2015/16 financial year. THH are working with LBTH to review working practices in relation to prevention, detection and investigation in order to improve performance. Increasing prevention and the recovery of illegally occupied properties will help to ensure that social housing is only allocated to the residents of the borough most in need. The audit was designed to provide assurance over the adequacy of the systems and procedures in place for the management and control of Unauthorised Occupancy, and also to evaluate the potential consequences which could arise	Extensive	Substantial

		from any weaknesses in the internal control procedures. The main weaknesses were as follows:- • Documented procedures concerning the prevention and assessment of unauthorised tenancies are not up to date. The documentation is need of revision to ensure that it reflects new legislation, including the Prevention of Social Housing Fraud Act 2013 and best practice. • There is currently no strategy in place outlining the objectives in place for combatting unauthorised occupancy and tenancy fraud. • There is a need to improve the consistency and sufficiency of information available to residents of the borough concerning unauthorised occupancy, including clear contact details for reporting fraud to THH. • There is a need to raise publicity concerning tenancy fraud, including any successful prosecutions in order to act as a deterrent against future fraudulent activity. • Improvements are needed for monitoring the progress of cases that have been passed to the Council's Fraud Investigation Team. • There is a need for THH to benchmark its performance against other authorities' performance. All findings and recommendations were agreed with the Head of Neighbourhoods and reported to the Director of Neighbourhoods, the Director of Finance, and the Chief Executive at THH.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes Planned Maintenance Follow Up Audit	Mar 2016	A full systems audit on the Management and Control of Planned Maintenance Works was undertaken in April 2014, as part of the 2013/14 internal audit plan. This audit assigned Limited Assurance to the area, based on the findings and the recommendations raised. This report presents the findings and recommendations of the follow up audit, conducted in October 2015; the objective was to assess whether the agreed recommendations at the conclusion of the internal audit had been implemented. The 2013/14 planned maintenance programme incurred a slippage of £502k. This was carried forward into the 2014/15 programme along with new schemes totalling £6.7m, including £1m contingency however, the £6.7m were not spent in 2014/15 and were carried forward into the 2015/16 programme. The planned maintenance programme is divided into 12 work streams and within those there are 83 individual schemes. Officers from within Property Services have reported that with the exception of a number of lift renewals the Planned Maintenance Programme is on target to be completed by October 2016. The original review concentrated on four Framework Contracts used within the Planned Maintenance Programme. These contacts were: - Communal Heating (GEM); - Boosted Water (GEM); - Door Entry (Openreach); and, - Lift renewals (21st Century Lifts). The original audit found that there was no framework contract that allowed for the replacement of communal boilers albeit orders in excess of £1m had been placed with the contractor GEM which was the appointed contractor for repairs and maintenance of communal heating. Furthermore, the replacement of these boilers had not been subjected to S20 leaseholder consultation, and there was therefore a risk that should a dispute arise regarding charges officers would not be able to adequately demonstrate that the rates charged by GEM for these replacements were obtained in open competition. It was also found that charges for overheads and profit had been included with the	Extensive	Substantial

		quotations supplied by GEM which in our opinion have not been interpreted in accordance with the conditions of contract to which they refer. The review also found that payments of 10% of the total contract sum had been made to 21st Century Lifts for the design and issuance of drawings; however a review of their framework agreement showed that there was no provision within the contract document that required officers to make an advance payment to the contractor. A Matrix system was in place that informed the methodology of the planned maintenance programme to support officer's decisions for prioritising works packages. It was understood that new asset management software (Keystone) was to be introduced and as such operational procedures needed to be developed to reflect the operational changes that will be incurred. The slippage to the following year's programme was not being reported upon and gave cause for concern as to whether the full programme would be achieved. Our follow up review identified that of the one high priority and four medium priority recommendations made at the conclusion of the original audit, the high priority recommendation and three medium priority recommendations had been fully addressed, although one medium priority recommendation was not implemented as yet. Following our work, we have made one recommendation to enhance the control environment within this area. • Senior Managers should ensure that there is sound governance and reporting around the Planned Maintenance Programme performance on a regular basis in order to make informed decisions by those charged with governance. Consideration should be given to develop a suite of key performance indicators (KPIs) and performance targets against which the performance of the planned maintenance programme can be tracked and monitored by the Board. The findings and the recommendation were agreed with the Support Officer, Property Services and reported to the Director of Finance, Interim Director of Asset Management, Director of Neighbourhoods, and the Chief Executive.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll Account Reconciliations	Mar 2016	Financial Procedures FA4 requires that the Council conducts frequent reconciliations of net payroll expenditure against approved bank account(s), payments of statutory and non-statutory deductions to third parties (e.g. pension contributions), and annual year-end statutory deductions compared to amounts paid to the Paymaster General. The Payroll Reconciliation is a three-way reconciliation between BACS payments totals to the Payroll system and also to the General Ledger. The objective of the payroll account reconciliations is to ensure that all records of transactions paid and received in relation to a given period as per the Payroll system, match the records of payroll expenditure and receipts in the general ledger. This is to ensure that all monies spent and received by the Council in relation to the payroll are accounted for in the main accounting system. The Payroll reconciliations involve the reconciling of the Council's payroll accounts in the general ledger against the payroll records, using reports generated from the Northgate ResourceLink and Agresso systems, respectively. This audit is being undertaken as part of the 2015/16 agreed Audit Plan. The Payroll system has an inherently high risk of errors and irregularities and a strong control environment is necessary to manage this level of risk. From 1 April 2015 to September 2015, the authority's payroll department processed the following: 935 starters; 968 leavers; 972 deductions; and 476 amendments. The estimated payroll expenditure for April 2015- September 2015 is: Gross pay: £154.9 million	Extensive	Substantial

Net pay: £112.3 million

No. of payments – 65,760

The average monthly payroll amounts are:

Gross pay: £25.8 million

Net pay: £18.7 million

No. of payments – 10,960

The audit was designed to provide assurance to management that the systems at corporate level for the reconciliation of the payroll account are sound, secure and effective, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The weakness identified was as follows:-

- Policies and Procedures are work in progress that are not yet fully completed.
- There is a lack of effective staff contingency planning in place to cater for the absence of the Operations Assistant Accountant.
- There is a lack of formal training for staff.
- Information is not provided with regards to unreconciled items to senior management as well as how long the items have been unreconciled.
- Discussions regarding the key performance indicators (KPIs) at the Finance Management Team (FMT) meetings are not included in the body of the minutes.

All findings and recommendations were agreed with the Senior Accountant, and the Payroll Manager and reported to the Service Head – Human Resources and Workforce Development, Interim Service Head, For Finance and Procurement, and the Corporate Director, Resources.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Treasury Management	Mar 2016	The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow, imposes a duty on local authorities to determine an affordable borrowing limit and 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. The Treasury Management function is responsible for the ongoing monitoring and forecasting of monetary assets of the Council and for the effective investment of funds surplus over any given period of time to generate a sufficient financial return. A total of 96 term investments (TI) transactions were made between February 2015 and September 2015, with the largest investment of £20m. As at 31st August 2015, the Council had a total of outstanding investments of £415.7m, of which £70.7m was invested overnight with the remainder being invested for longer periods as follows; < 1 month £40m 1 – 3 months £45m 3 – 6 months £105m 6 – 9 months £120m 9 – 12 months £20m > 12 months £25m The 2015/16 Treasury Management Strategy was approved by the Council at its meeting of 25th February 2015. The strategy details the investment procedures and controls. Investments are made taking into account the forecasted cash position which forms the basis of the investment strategy. Relevant criteria for investments have been identified such as credit rating of financial institutions, investment horizons, scenarios requiring a reappraisal of strategy, individual institutional limits for investing, etc. The audit was designed to provide assurance to management as to whether the systems and controls around the Treasury Management function 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	Extensive	Substantial ⇔

		weaknesses were as follows:- • In one out of six reconciliations undertaken in the current financial year for the 'Investment Reconciliation Money Market Funds 2015/16' there was no evidence of an independent review having been undertaken. • Three out of 30 daily dealings had not had the appropriate level of approval, in that no second approval was given. • Face to face meetings are not currently held with senior management to discuss the position of the Treasury Management function; instead emails are sent. This issue was raised in the 2014/15 internal audit report. • No date of review had been included on the Treasury Management procedure notes. All findings and recommendations were agreed with the Investment and Treasury Manager and reported to the Interim Service Head, Corporate Finance and Procurement, and the Corporate Director of Resources.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Business Rate Retention Scheme Follow Up Audit	Apr 2016	The business rates retention scheme provides a direct link between business rates growth and the amount of money councils have to spend on local people and local services. Councils are able to keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area. This is designed to provide a strong financial incentive for councils to promote economic growth. Business rates retention is at the heart of the Government's reform agenda and aims to achieve two priorities: economic growth and localism. In the case of Tower Hamlets, the Council retains 30% of the NNDR collected, with 20% going to the Greater London Authority and the remaining 50% going to central Government. At the beginning of the scheme, the Government carried out calculations to ensure that councils with more business rates than their current spending will make a tariff payment to Government. Similarly, where councils have greater needs than their business rates income, they will receive a top-up payment from the Government. The total sums of these payments will equal each other. Tower Hamlets falls within the 'top-up' category, which provides the Council with an incentive to increase its NNDR collection. A full systems audit on Business Rates Retention Scheme was undertaken in March 2015 and the final audit report was issued in April 2015. This audit was assigned substantial assurance. This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented. This follow up audit was undertaken as part of the 2015/16 internal audit plan. Our follow up review showed that of the four recommendations made in our original report (all medium priority) three have been fully implemented, and one partly implemented. As a result, we have made a recommendation that the outstanding issue be addressed, in order to enhance the control environment within this area. The sole issue arising from our review is as follows • Although work has commenced, the system linking all accounts relating to	Extensive	Substantial ⇔

		the same organisation is not yet fully in place. All findings and recommendations were agreed with the Head of Revenue Services, and reported to the Corporate Director, Resources.		

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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Rents	May 2016	Tower Hamlets Homes (THH) is an Arms Length Management Organisation (ALMO) owed by Tower Hamlets Council, the Council. The THH rents function is responsible for the correct billing of rent increases, amendments, arrears and the collection of rental income from Council owned housing stock. The current arrears figure as at 6th April 2015 was £2.62m, which had increased to £2.76m as at 18th January 2016. The housing rents section is split across four areas. There are North and South Arrears Teams which chase current tenant arrears. There is a manager who oversees the recovery of debt from former tenants and an Accounts team who deal with the processing of rent charges and increases. The audit was designed to provide assurance to management as to whether the systems of control around the Housing Rents 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:- • There is an issue with the lack of notification by the Northgate system in certain cases where a tenant does not adhere to a repayment plan in terms of rent arrears. Where a tenant has entered into an agreement with THH to repay rent arrears in instalments and, where an unexpected payment is received and credited to the rent account, e.g. a back payment of housing benefit, and subsequently the tenant does not keep up with the agreed payments in the repayment plan, this is not reported by the system. Although manual controls are in place to identify where such cases occur, it would be more efficient if the identification of these cases were to be automated. • It was noted that tenants whose entitlement to housing benefit had ceased were not being routinely contacted and chased regularly to identify if the entitlement was likely to restart. Previously, it was possible for THH to make contact directly with the housing benefit service at the Council to discuss such	Extensive	Substantial

		issues. However, this is no longer possible due to data protection considerations. • We identified examples of monthly write off reports which were not completed in full or appropriately authorised. • We noted an example where an enrolment form had not been completed with relevant signatures and dates prior to access being granted to the Northgate (Sx3) system. All findings and recommendations were agreed with the Rents Manager and reported to the Director of Finance, the Director of Neighbourhoods, and the Chief Executive at THH.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
General Ledger	Apr 2016	The Council uses the Agresso general ledger system which was installed at the beginning of the 2013/14 financial year. The Council has set an annual revenue budget of £291m for the financial year 2015/16 and a capital budget of £328m, and at the time of the audit (quarter 2 report) a break even position was being forecasted. There was some concern around in respect of the social care budgets, since it was unclear as to whether these areas would be able to achieve the full savings targets which had been set and further investigation was being undertaken to determine if this was the case. This could potentially lead to a budget overspend of approximately £2m, which we were advised would be funded through the Council's reserves. There are approximately 1,690 cost centres within the Council and its general ledger system; these are grouped into service areas, known as votes. The audit was designed to provide assurance to management as to whether the systems and controls around the General Ledger 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:- • There is no automated checking process in place in terms of the upload of data from the feeder systems to the Agresso system. A manual checking process is in place to ensure the integrity of data uploads from the feeder systems. We understand that the development of an automated system is on the Agilysis workplan to be delivered, but the timescale for the delivery of this functionality is not known. • The standard proforma for journal entries is not being used in all cases and therefore there is insufficient information regarding input (processor) details. All findings and recommendations were agreed with the Financial Systems Manager and reported to the Interim Service Head, Finance and Procurement, and the Corporate Director of Resources.	Extensive	Substantial ⟺

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll	Apr 2016	The Payroll function at the London Borough of Tower Hamlets is responsible for the effective management of payroll processing, including processing starters, leavers, deductions and amendments, and for paying staff promptly and accurately. The Payroll system has an inherently high risk of errors and irregularities and a strong control environment is necessary to manage this level of risk. From 1 April 2015 to September 2015, the authority's payroll department processed the following: 935 starters; 968 leavers; 972 deductions; and 476 amendments. The estimated payroll expenditure for 2015/16 to date at the time of the audit, in the period April 2015 to September 2015 was: Gross pay: £154.9 million Net pay: £112.3 million No. of payments – 65,760 The average monthly payroll amounts to date are: Gross pay: £25.8 million Net pay: £18.7 million No. of payments – 10,960 The audit was designed to provide assurance to management as to whether the systems and controls around the management of Payroll 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:- • The Payroll policies and procedures in place appear to be appropriate. However, we were unable to evidence that all of these had been recently reviewed since not all of the documents incorporate version history control.	Extensive	Substantial ⟺

		• From our sample testing it was noted that in the case of one deduction of 20 sampled, there was no evidence of a second review having been completed. • From our testing of a sample of 20 amendments, it was found that in one instance the amendment agreement had not been signed and dated by either the officer who processed the amendment or the officer who reviewed it. • It was previously agreed as a result of the audit conducted in 2014/15 that an electronic workflow process should be developed for leavers, in order to ensure that Payroll are notified in a timely manner. This process has not yet been implemented. All findings and recommendations were agreed with the Payroll Manager and reported to the Service Head, Human Resources and Workforce Development, and the Corporate Director of Resources.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors	Apr 2016	The Income and Debtors function is responsible for the invoicing, collection and recording of income received. A debtor is a person or organisation with an obligation to pay a debt to the Authority. The London Borough of Tower Hamlets implemented a new general ledger system, Agresso, during the 2013/14 financial year. Agresso's accounts receivable function is fully integrated with the general ledger. As at 22nd October 2015, there was a total of £12.8m of outstanding debt owed to the Council. The total value of invoices raised in 2015/16 as at 29th February 2016 was £93.8m. The audit was designed to provide assurance to management as to whether the systems and controls around the management of Debtors are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The weaknesses were as follows:- • The policies and procedures should be regularly reviewed and updated if necessary, i.e. on an annual basis. However, the Council's Financial Regulations and the Corporate Write-Off Policy show no version history control. This issue was previously raised in the 2014/15 audit report. • There are currently no policies and procedures in place for write-offs regarding debt for Meals in the Homes. All findings and recommendations were agreed with the Senior Income Officer and reported to the Service Head, Revenue Services, and the Corporate Director of Resources.	Extensive	Substantial ⟺

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
MSG Programme 2015 to 2018.	April 2016	This audit shadowed the new round of the Main Stream Grants programme in order to provide assurance that grants application, eligibility, assessment and allocation systems achieved Council's objectives. On the 29th July 2015, the Commissioners received a report seeking approval for officer's recommendations to the new allocation of the Council's MSG Programme. The total number of applications received by the Council was 370, of which 23 were ineligible, 216 were not recommended for funding and 131 projects were recommended and approved for grant funding. totalling £9.2 M. The key findings contributing to the assurance assigned are: • We found sound arrangements in place for approving, monitoring and reviewing all Mainstream Grants Programmes across the Council. • A complete audit trail was provided in terms of eligibility checks, assessments and officers MSG funding recommendations, • We noted that there was a pre-requisite that MSG awards would not provide 100% of Total Lifetime Project Costs and therefore, organisations were required to contribute a minimum of 15%. Our testing showed that seven organisations in the audit sample of 20 had received in excess of 85%. There was no specific authority to approve funding in excess of 85%. In addition one organisation would appear to have not fully met the financial viability assessment criteria. • Although the required checks were completed in terms of the organisations' financial viability, our testing has shown that these checks needed to be more in depth and we have recommended that these checks are undertaken including checks against the Charities Commission and Companies House records. • We noted that there was no specific requirement for Declarations of Interests (DOI) to be completed for all staff involved at the beginning of the MSG process. However, audit testing showed that for a sample of Grant Officers, DOI's had been completed in the previous 12 month period. It was further noted that there was a DOI clause set out in the service level agreement with East End Community Foundation (contracted to carry out	Extensive	Substantial ⇕

		external assessments). However, no DOI's were required to be submitted for examination by the Council. • In 1 out of 20 cases, we found that pre-award conditions of grant had not been reflected in the Grant offer Letter and, • It was acknowledged that the proposed MSG timeline and process was extremely ambitious with which to deliver the new MSG programme with considerable resource pressures as a timeframe of 7 weeks from the deadline for receipt of MSG applications through to decision required by the Commissioners was put in place. However, the risks associated with any slippage to the MSG process were not captured in the corporate risk register. All findings and recommendations were agreed with the Head of Benefits Service and final report was issued to the Corporate Director of Resources.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Transport Services Follow Up Audit	May 2016	A full systems audit on the Transport Services was undertaken as part of the 2014/15 internal audit plan. This audit assigned an opinion of substantial assurance to the area, based on the findings and the recommendations raised. This objective of this follow up audit, conducted in April 2016, was to assess whether the agreed recommendations at the conclusion of the original internal audit had been implemented. Transport Services comprises two main elements, Fleet Management and Passenger Services. The Fleet Management section manages all of the Council's vehicle fleet, which currently consists of over 250 vehicles, of which 46 are used for passenger services. It oversees the provision and disposal of vehicles, their legal operation, their management, maintenance and repair, and provides first-call accident, tyre, breakdown and insurance management. It also monitors and undertakes regular assessment of all drivers of Council vehicles. Passenger services provide routine operations through an agreed Service Level Agreement (SLA) with Education and Social Services, as well as other Council departments requiring passenger transport. Under this SLA it schedules, provides and manages journeys, operated by its own fleet and by external providers, carrying children with Special Educational Needs and vulnerable adults and elders from their homes to schools, day centres and lunch clubs. Passenger Services also provides regular journeys for schools. This follow up audit was undertaken as part of the 2015/16 internal audit plan. Our follow up review showed that of the one high priority recommendation and four medium priority recommendations made at the conclusion of the original audit, three medium priority recommendations had been fully addressed. Following our audit work, we have made one high priority and one medium priority recommendations to enhance the control environment within this area. The areas of weakness are as follows; • A record of stock inventory is not being maintained and there is no effective stock management system in place. • Non-professional drivers have not been subjected to training and assessment. Furthermore, there no continuous training provided to non-	Extensive	Substantial

		professional drivers in relation to the Council's requirements. All findings and recommendations were agreed with the Fleet Operations Manager, and reported to the Interim Service Head, Development, Compliance and Commissioning, the Service Head, Parking, Mobility and Transport and the Corporate Director – Communities, Localities and Culture.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Use of Taxis by Council Staff Follow Up audit	May 2016	This audit assessed the progress made in implementing the recommendations raised at the conclusion of the original report issued in July 2015. Our testing showed that progress was made in implementing three out of the four high priority recommendations made in the final audit report. he one medium priority recommendation was implemented. The key findings contributing to the assurance assigned are: • There were 8 contracts which needed to be signed by the contractors and on behalf of the Council, although the contract is to be re-procured in due course. • All taxi journeys undertaken by Council staff needed to be authorised in line with the Corporate Travel Policy. • Invoices from providers needed to include details of wait time to ensure that the charges invoiced for waiting times can be verified correctly. • Reports on usage of taxis at directorate and users level needed to be produced and provided to the respective DMTs and budget holders to ensure scrutiny. All findings and recommendations were agreed with Service Head, Asset Management and Capital Delivery and final report was issued to Corporate Directors.	Moderate	Substantial ⇨

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cleaning Services Follow Up Audit	Apr 2016	Cleaning Services for schools, youth centres and children's centres are provided by the Cleaning Team at the Council. Currently there are 44 sites with service level agreements with the Council for cleaning services. Agreements can be taken out for one year, three years, or a more flexible rolling service with a three month notice period. Cleaning staff are trained and supervised by the Cleaning Team, while cleaning materials are ordered from a third party supplier as needed. Schools and centres are invoiced on a monthly basis for the cleaning services as per the service level agreements in place, and other services can be ordered in addition. The service will also broker third party services for specialised services. A quality assurance process is in place to review and monitor the performance of the cleaning services, through regular site inspections. The department uses a combination of permanent and agency staff to deliver services to their clients. Cleaning Services generates £1.26 million a year in income A full systems audit on Cleaning Services was undertaken in March 2015 and the final audit report was issued in April 2015. This audit was assigned Limited Assurance. This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented. This follow up audit was undertaken as part of the 2015/16 internal audit plan. Our follow up review showed that, of the six recommendations made in our original report (four high priority and two medium priority), two have been fully addressed, and four have been partly implemented. As a result, we have made recommendations that those outstanding issues be addressed, in order to enhance the control environment within this area. The main issues arising from our review are as follows • The SLA Online System will not be implemented until the 2017/18 financial year. • The biometric system is still experiencing operational issues and has only	Moderate	Substantial

		been implemented in two schools. • There has been no contact with agencies regarding creating a process for notifying Contract Services for differences in staff performing the work. • There is a lack of meaningful KPIs being monitored. All findings and recommendations were agreed with the Interim Head of Contract Services, and reported to the Head of Children’s and Adult’s Resources and the Corporate Director, Children’s Services.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Mowlem Primary School	Feb 2016	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 an Operations Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:- • Examination of the minutes of the Full Governing Body shows that the terms of reference for the committees were approved by the Full Governing Body on 20/12/2015. However, further examination of the terms of reference for the committees showed that these documents did not include the year to which it relates, and nor were these documents signed by as approved by the Chair of the Full Governing Body. • The School produces a monthly reconciliation for the Local Authority. However, the only signature evidenced on the report and all supporting documentation is that of the Head Teacher, and the document is not signed by the officer completing the reconciliation. • 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. We were informed that the documents had been requested, but had not been provided by HR at the time of the audit. • In a sample of leavers files, there was no documentary evidence that there is a standard process for the recovery of all the School's assets. We were informed that being a small School, everyone is aware of the staff member leaving and all appropriate assets are always collected by the Premises Manager. • It was established that an 'End of Journey' statement, which details the income and expenditure of the journey, was not prepared and presented to Governors in respect of the most recent School Journey. • The guidance on the HMRC website states that, "A worker's employment status, that is whether they are employed or self-employed, is not a matter of choice. Whether someone is employed or self-employed depends upon the terms and conditions of the relevant engagement." The Employment	Moderate	Substantial $\Longleftrightarrow$ No change in the direction of travel from the previous audit undertaken in 2010/11

		Status Indicator (ESI) tool on the HMRC website can be used to determine the employment status of individuals. Where someone is determined to be employed, PAYE and NI deductions must be made at source. From examination of a sample of three transactions there was no evidence that the suppliers have confirmed that they are fully responsible for their NI and Tax payments. • Whilst it was evidenced that the School Voluntary Fund was audited on 5 November 2015, from a review of the financial statements, we noted a number of payments had been made relating to gifts for staff. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Corporate Director – Children's Services.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bygrove Primary School	Mar 2016	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 Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:- • The School's "Financial Management Code of Practice and Scheme of Delegation" document stated competitive quotes would be obtained for expenditure between £5,001 and £10,000. However, The School's "Financial Management Code of Practice and Scheme of Delegation" document did not state the expenditure limit at which the School would seek to obtain tenders. • Examination of the committee meeting minutes from the past 12 months established that in one instance, the Resources Committee meeting minutes had not been signed (meeting on 20 March 2015). In addition the Pupil Achievement Committee minutes from November 2014 – June 2015 were not signed until 1 November 2015. • The Declaration of Interests form was not completed by one of the governors. Upon further examination of the previous declaration of interests signed earlier in the year, it would appear that the same Governor had signed a declaration of interest form but this was incomplete (name of school was omitted and the date of signing was incorrect). • The School Development Plan could not be evidenced as having been approved by the full Governing Body in any of the meeting minutes over the past 12 months. • From a sample of five high value purchases, one had not been approved by the Governing Body as required. In this instance, there were three separate transactions, paid with one cheque. A Purchase Order (PO) was raised by the School for the amount of £13,590 and, whilst the individual invoices were below the threshold, the value of the order required Governing Body approval. Furthermore, for a sample of 10 applicable transactions there was no evidence that POs were raised in two instances	Moderate	Substantial ⟺ No change in the direction of travel from the previous audit undertaken in 2010/11

		and three of the purchases invoices were received prior to the PO being raised. • Examination of five equipment loan forms noted that in two cases the member of staff has not signed the register; and n two cases, loan of a laptop had not been independently authorised. In addition, no return date was included on the form, just "when asked to do so". Testing also noted that the Parago Register records were inconsistent with the register signed by staff. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Interim Corporate Director – Children's Services.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Christ Church Primary School	Mar 2016	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, which has overall responsibility for financial planning and control. The main weaknesses were as follows:- • From a sample of two higher value contracts held by the School, it could not be confirmed that Governing Body approval had been obtained or value for money had been sought. For one contract over £10,000 in value three written quotations from alternative suppliers could not be evidenced. For another contract over £20,000 in value, a full tendering process was not evidenced. We noted that one alternative quote was obtained; however, the additional quote was from the same supplier and a full tendering process should have been performed. Furthermore, from examination of full Governing Body and Resources Committee meeting minutes, there was no evidence that these contracts had been formally approved as required. (The School's Financial Procedures Manual, page 29, states that three written quotations should be obtained for orders above £10,000 and a full tendering process should be performed for orders over £20,000). • The School had also entered into a lease agreement: (Canon – lease value £937.02 per quarter); however, there was no evidence that appropriate advice or approval from the Local Authority / Director of Finance had been obtained. • For three out of 10 purchase orders sampled there was no evidence that an official order form had been completed where this should have been the case. (For 10 applicable cases, three invoices were paid over 30 days after issue/receipt. One of the payments was three months overdue. • Examination of Resources Committee meeting minutes (committee in operation since March 2015) identified that in all instances the meeting minutes had not been signed (namely on 6 May 2015 and 23 March 2015). In addition, the minutes did not include a declaration of business interests as an opening agenda item.	Moderate	Substantial ⟺ No change in the direction of travel from the previous audit undertaken in 2010/11

Page 118		- Discussion established that transfers of cash and cheques removed from the School's safe for banking by the School staff were not signed for. Discussion established that an income banking sheet or similar was not produced by the School to evidence that an independent check of the banking against income collection records by a more senior officer was carried out. - A sample of five new starter files was tested and the following issues were noted: In one instance a new starter application form to evidence when key documentation had been checked was not held on file. In all instances documentation to evidence a medical check had been completed was not held on file. In two instances documentation to evidence only one valid reference had been obtained was held on file. It was noted that for one of these, two references were obtained from the same employer; however a reference from an alternative employer should have been sought. If no alternative employment references were available, a second reference could have been sought from the employee's last educational establishment. - Discussion established that the School did not maintain a record of the actual costings vs budget allocation or that an 'End of Journey' statement was prepared. Invoices for trip expenditure were obtained including preliminary costings prior to commencement of the trip. - Discussion established inventory records are checked on an ongoing basis; however, there was no evidence that an annual stock check had been performed and the results presented to the full Governing Body or Interim Executive Board from the meeting minutes over the past 12 months. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Interim Corporate Director – Children's Services.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Chisenhale Primary School Page 119	Mar 2016	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 Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:- • The Head Teacher advised us that the School Improvement Plan 2015-16 is due to be approved at the next Full Governing Meeting. The Plan is a live document and is available on the School website. A further review was carried out on the 2014-15 School Improvement Plan (formerly called the Raising Achievement Plan). Although it can be evidenced as being actively referenced and discussed in the School Improvement (SI) Committee meetings, it could not be evidenced as being approved in any of the SI or full Governing Body meeting minutes over the past 12 months. • Testing of a sample of 10 purchases identified one where there was no evidence of a purchase order being raised; and one where the purchase order was raised after the invoice was received. • From a sample of five high value purchases, one had not been approved by the Governing Body as required. • The guidance on the HMRC website states that, "A worker's employment status that is whether they are employed or self-employed, is not a matter of choice. Whether someone is employed or self-employed depends upon the terms and conditions of the relevant engagement." The Employment Status Indicator (ESI) tool on the HMRC website can be used to determine the employment status of individuals. Where someone is determined to be employed, PAYE and NI deductions must be made at source. From examination of a sample of three transactions for self-employed individuals, there was no evidence that the suppliers have confirmed that they are fully responsible for their NI and Tax payments. • On examination of the income and expenditure for the School Journey, Whilst it was evidenced that the School produces a detailed income and expenditure statement in the finance system, the School does not retain	Moderate	Substantial ⟺ No change in the direction of travel from the previous audit undertaken in 2010/11

		initial costings of the School Journey because the venue is well known to them. A School Journey statement had not been produced for the most recent residential trip, but the School advised it will be produced and presented at the next Full Governing Body meeting. As there is no evidence a statement has been produced in the past, a copy of the full Governing Body minutes was requested post audit and it was established that a subsequent 'End of Journey' statement' was not prepared and presented to Governors in respect of previous residential trips. Other Items to note as part of the audit: At the time of audit, it was noted that there were three 'Declaration of Interests' missing. One of the Governors has moved away and no longer attends meetings. As the School subsequently obtained the two missing forms, a recommendation was not raised. At the time of audit, the safe limit could not be confirmed. It was subsequently established to be £500 and as a result there were occasions where cash held would have exceeded this limit. The School requested an increase in the safe limit during the audit which has been approved by the Borough's Insurance Department; a recommendation was not raised. The terms of reference for the School committees did not have details of the frequency of meetings. These were updated post audit, and therefore a recommendation was not raised. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Interim Corporate Director – Children's Services.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Ian Mikardo High School	May 2016	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 Premises Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:- • From examination of the School Fund ledger and bank statements, we could not evidence that a reconciliation between the School Fund ledger and bank statements had taken place. • Delivery notes or evidence of goods/services received checks could not be evidenced in four out of 10 cases tested. • From a sample of two leavers, there was no evidence of notification to Payroll and Personnel services retained on file. In both cases payments were made the following month after they had left employment. The School Office Manager advised that EPM (the Schools Personnel provider) was notified immediately and it is EPM who notify the Local Authority (the Schools Payroll provider) of leavers; however, there was no audit trail for this process. The payment was stopped and rectified when the School Office Manager checked the payslips and report received and identified the anomalies. • Examination of two new starters' records identified that in both instances, staff members did not have evidence of a health check on file. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Corporate Director – Children's Services.	Moderate	Substantial The direction of travel has improved from the previous audit undertaken in 2014/15

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bangabandhu Primary School	May 2016	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 Premises Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:- • The School has a high interest bank account at Lloyds Bank whereas the main disbursement account is maintained at NatWest. There is no up-to-date mandate in place for the high interest account and it has not been updated during the current Head Teacher's tenure. • From the sample of five new starters it was noted that four of them did not have a DBS check prior to the staff members starting their role. The details of these staff members have been made available to the school. • From our sample testing of 10 purchase orders there was no evidence that an official order form had been completed in five instances. Two related to regular services under a contract and one was part of a larger order. However, there were no purchase orders in respect of two payments. It was also evidenced that the School Business Manager certifies the goods purchased as received as well as raising the purchase order itself. There is no clear segregation of roles as required by the School's Financial Procedures Manual. • Our testing identified that, although the School has a number of processes in place to ensure that business continues in the event of an incident, including IT emergency backup. However, the wider Business Continuity Plan is out of date. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Corporate Director – Children's Services.	Moderate	Substantial $\Longleftrightarrow$ No change in the direction of travel from the previous audit undertaken in 2010/11

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Landlord Incentive Scheme Follow Up Audit	Apr 2016	The Landlord's Incentive scheme is a way of helping individuals and families who need a home to find one in the private rented sector. The Council will pay the landlord a non-refundable sum and payments are made according to the size of the property and duration of the tenancy that is offered. For the financial year 2015/16, there were 64 incentive payments made to landlords, totalling £252k. Of these, 21 payments totalling £158k were incentives for the delivery of multiple private licence agreements (PLA) properties; the remainder were for private rented sector offers. A full systems audit on Landlord's Incentive Scheme was undertaken in 2013/14 for which the final report was issued in May 2015. This audit was assigned substantial assurance. This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented. This follow up audit was undertaken as part of the 2015/16 internal audit plan. From our audit work, we have confirmed that the two medium priority recommendations made as a result of our previous audit of this area have been implemented as required, i.e; • A revised scheme of delegation has been created, approved and implemented for use in the directorate. • From our testing of five private sector access scheme agreements with landlords, it was confirmed that all agreements were in place and had the relevant supporting documentation retained on the system. Provider folders have been created on Comino in order to provide a general filing point for documentation. We have therefore not raised any further recommendations. The findings were agreed with the Service Manager Housing Options & Procurement, and reported to the Service Head, Strategy, Regeneration & Sustainability, Development and Renewal, and the Corporate Director, Renewal and Development.	Moderate	Full

Appendix 4

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

Audit Subject	Recommendation	Service Head	Officer Name
Use of Taxis by Council Staff	The Head of FM in consultation with the Head of Procurement should ensure that the decision to continue placing orders with Mile End Cars who is not the cheapest provider should be approved by an appropriate officer with the required delegated authority.	Ann Sutcliffe	Amanda Baird
Transport Services	Transport Services should maintain a record of all stock purchased and this should be reconciled to stock being consumed. Ideally, an automated stock control system should be implemented. A physical check of all stock should be undertaken at regular intervals and any discrepancies addressed and reported as appropriate. The check should be undertaken by an officer independent of maintaining the stock register, and the check should be evidenced as such (i.e. signed and dated).	Mirsad Bakalovic	Fleet Operations Manager pending the recruitment of a new Workshop Manager

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

Audit Subject	Recommendation	Service Head	Officer Name
Client Monitoring of THH	The Protocol between LBTH and THH with respect to Internal Audit should be dated, version controlled and agreed with THH formally and minuted as such in a Monthly Operational Meeting.	Jackie Odunoye	John Kiwanuka
Client Monitoring of THH	The Client Team Manager should ensure that Business Continuity Plans have an annual review and there is evidence that the plans are periodically tested to ensure that should a disaster arise the Service is best placed to react to it.	Jackie Odunoye	John Kiwanuka
Transport Services	Transport Services should ensure that all drivers, including non-professional drivers are subject to a driving assessment and eyesight test at prescribed intervals. Transport Services should introduce a continuous training programme for all drivers, in consultation with the various Council departments. Training should be made available to drivers, completed in full and evidence retained.	Mirsad Bakalovic	Fleet Operations Manager, Service Heads for the various operational departments of the Council and Audit Team.
Planned Maintenance	Senior Managers should ensure that there is sound governance and reporting around the Planned Maintenance Programme performance on a regular basis in order to make informed decisions by those charged with governance. Consideration should be given to develop a suite of KPIs and performance targets against which the performance of the planned maintenance programme can be tracked and monitored by the Board.	Les Warren	Josh Hadley, Stewart King and Brian Golton

APPENDIX 5

List of Planned Audits Undertaken in 2015/16

Audit Description	Significance	Assurance
Law, Probity and Governance		
Contracts Signing and Sealing	Extensive	Limited
Registrar's Office	Moderate	Limited
Data Quality	Moderate	TBC
Corporate		
Management and Control of Sickness	Extensive	N/A
Establishment Control	Extensive	Limited
Transparency Code – Compliance	Extensive	Substantial
Management and Control of Taxis/Cabs	Moderate	Substantial
Procurement Procedures – Compliance audit	Extensive	Limited
Control and Monitoring of Best Value Action Plans for Property, Procurement, Communications and Grants	Extensive	Substantial
Adults Services		
Recovery of Unspent Funds from Individual Budgets for Adults Social Care	Moderate	Substantial
Financial Safeguarding	Moderate	Into 2016/17
Quality of Care Audits	Extensive	TBC
Management of the Action Plans resulting from Serious Case Reviews	Moderate	Substantial
Management and control of "No Recourse to Public Fund" cases	Moderate	TBC
Customer Journey First Response Follow Up	Extensive	Substantial
Troubled Families Programme – (Systems)	Moderate	TBC
Children's Services		
Olga School Building Contract	Extensive	Substantial
Follow Up – Excluded Children	Moderate	Full
Management of Missing Children's Register	Extensive	Substantial
Management and control of "No Recourse to Public Fund" cases	Moderate	TBC
Management of the Action Plans resulting from Serious Case Reviews.	Extensive	TBC
Cleaning Contract Services Follow-Up	Moderate	Substantial
Troubled Families Grants Verification	Moderate	N/A

Schools		
Alice Model Nursery School	Moderate	Substantial
Bangabandhu	Moderate	Substantial
Ben Jonson Follow Up	Moderate	Substantial
Bigland Green	Moderate	Substantial
Blue Gate Fields Junior School	Moderate	Substantial
Bonner	Moderate	Limited
Bygrove	Moderate	Substantial
Canon Barnett	Moderate	Substantial
Chisenhale	Moderate	Substantial
Christ Church	Moderate	Substantial
Clara Grant	Moderate	Substantial
Columbia	Moderate	Substantial
Cubitt Town Junior	Moderate	Substantial
Hague	Moderate	Substantial
Halley	Moderate	Substantial
Harbinger	Moderate	Substantial
Hermitage	Moderate	Substantial
Kobi Nazrul	Moderate	Limited
Manorfield	Moderate	Limited
Mayflower	Moderate	Substantial
Mowlem	Moderate	Substantial
Osmani	Moderate	Substantial
Smithy Street	Moderate	Substantial
Langdon Park	Moderate	Limited
Ian Mikardo	Moderate	Substantial
Communities, Localities and Culture		
Flare – Data Quality	Moderate	Substantial
Licence Applications	Moderate	Substantial
Trading Standards	Extensive	Substantial
Park and Phone Cashless Parking Income	Extensive	Limited
Highways Contract	Extensive	Limited
Community Language Service	Moderate	Nil
Poplar Mortuary	Moderate	Substantial
Markets – Management of Vouchers for Traders	Moderate	Limited
Rechargeable Works – Follow Up	Moderate	Substantial
Follow Up - Parking Cash Income	Extensive	Substantial
Follow Up – Animal Wardens Service	Moderate	Substantial
Follow Up – Blue Badges	Extensive	Full
Follow Up – Pest Control	Moderate	Limited
Follow Up – Transport Services	Extensive	Substantial

Tower Hamlets Homes		
Major Works	Extensive	Limited
Unauthorised Occupancy	Extensive	Substantial
Corporate Health and Safety	Extensive	Limited
Specialist Repairs Contracts	Extensive	Substantial
Declaration of Staff Interests	Extensive	Substantial
Management of SLAs	Extensive	Substantial
Bancroft TMO	Extensive	Substantial
Right to Buy Follow Up	Extensive	Substantial
S20 Major Works Follow Up	Extensive	Substantial
Tenancy Successions and Exchanges Follow Up	Moderate	Full
Planned Maintenance Follow Up	Extensive	Substantial
Housing Repairs Follow Up	Extensive	Substantial
Out of Hours Repairs Follow Up	Extensive	Substantial
Management of Asbestos Follow Up	Extensive	TBC
Development and Renewal		
Temporary Accommodation	Extensive	Substantial
Management and Monitoring of Emergency Funds	Moderate	Substantial
Mainstream Grants Programme– Allocation and Assessment	Extensive	Substantial
Watts Grove Current Contract Audit on Construction of New Affordable Homes	Extensive	Substantial
London Mayor and LBTH Community Infrastructure Levy (CIL)	Extensive	Substantial
Lettings arrangements	Extensive	Limited
THH Client Monitoring Follow Up	Extensive	Substantial
Energy Management – Follow Up	Extensive	Substantial
Development Management Follow Up	Extensive	Limited
Landlord Incentives Scheme Follow Up	Moderate	Full
Resources		
Management of VAT	**Extensive**	**Substantial**
Medium Term Financial Plan	Extensive	Full
Management of Efficiency Programme	Extensive	Substantial
Payroll Account Reconciliation	Extensive	Substantial
One Stop Shops – Regularity Audit	Moderate	N/A
Management of Insurance Claims	Extensive	Substantial
Bailiff Contract Monitoring	Moderate	Substantial
Treasury Management	Extensive	Substantial
HR/payroll	Extensive	Substantial
General Ledger	Extensive	Substantial

Budgetary control	Extensive	Substantial
Creditors	Extensive	Substantial
Debtors	Extensive	Substantial
NNDR	Extensive	Substantial
Council Tax	Extensive	Substantial
Capital Programme and Accounting	Extensive	Into 2016/17
Pensions	Extensive	Substantial
Housing Benefit and Council Tax Reduction Scheme	Extensive	Substantial
Housing Rents	Extensive	Substantial
Business Rate Retention Scheme Follow Up	Extensive	Substantial
Bank Reconciliation Follow Up	Extensive	Substantial

Appendix 6

Head of Audit Opinion – Summary

Background

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

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

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

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

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2015/16

This opinion statement is provided for the use of the Council in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2016.

Scope of Responsibility

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

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

The Purpose of the System of Internal Control

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

The Internal Control Environment

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

Review of Effectiveness

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

Head of Internal Audit Annual Opinion Statement

My opinion is derived from work carried out by Internal Audit Services during the year as part of the agreed internal audit plan for 2015/16, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2015/16 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

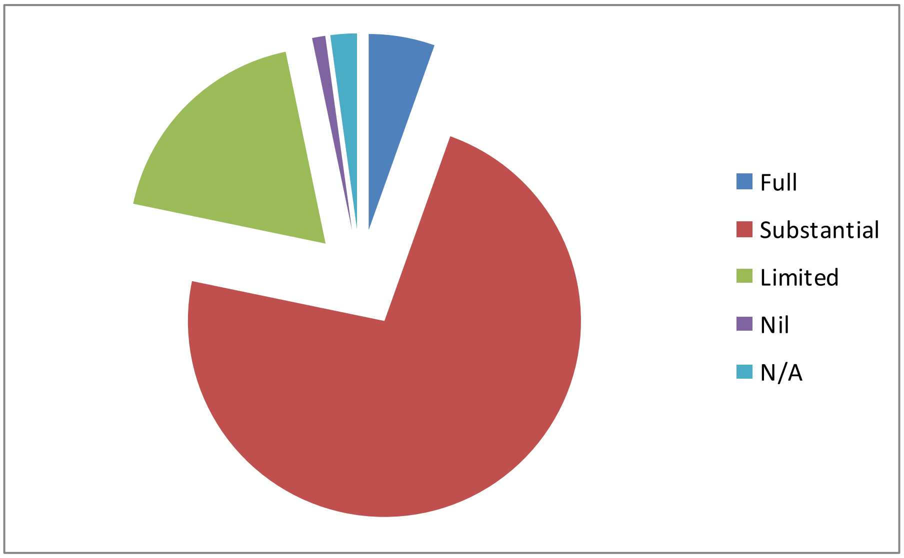
Audits have been conducted in accordance with the Public Sector Internal Audit Standards. The programme of work carried out during 2015/16 is at Appendix 5.

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

100% of Internal Audit work for the year to 31 March 2016 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted in 2015/16 are depicted in Graph 1 below. This shows that 67% of the systems audited achieved an assurance level of full or substantial assurance, whereas 17% of systems audited achieved limited or nil assurance. This is an adequate performance by the council. There are currently 18 audits (16%) in progress which have assurance levels yet to be confirmed.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. Given that 78% of priority 1 and 87% of priority 2 recommendations followed up had been implemented when the audit revisited the area, this is an area of concern and has been reported to the CMT and the Audit Committee previously. Stronger escalation procedures have been developed over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee.

Graph 1 – Levels of Assurance for 2015/16



2015/16 Year Opinion

Internal Control

From the Internal Audit work undertaken in 2015/16, it is my opinion that I can provide a satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31st March 2016 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 80-87**. The assurance can be further broken down between financial and non-financial systems, as follows:

THE ASSURANCE – FINANCIAL SYSTEMS

Our overall opinion is that internal controls within financial systems operating throughout the year are fundamentally sound, other than those assigned limited or nil assurance.

ASSURANCE –NON-FINANCIAL

Our overall opinion is that internal controls within operational systems operating throughout the year are fundamentally sound, other than those assigned limited or nil assurance.

Risk Management

In my opinion, risk management within the Council continues to be embedded, with increased emphases on buy in from staff, Member and the Corporate Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process. The Audit Committee will receive an **annual Risk Management report in June 2016.**

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

Minesh Jani – Head of Audit and Risk Management

June 2016

Appendix 7

DETAILED REPORT

Introduction

This section is a report detailing:

- any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- the management processes adopted to deliver risk management and governance requirements;
- comparison of the work undertaken during the 2015/16 year against the original Internal Audit plan; and
- a brief summary of the audit service performance against agreed performance measures.

Significant Control Issues

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2015/16. Key issues included the following which had all been responded by management:-

Monitoring of Public Health Contracts for Smoking Cessation; Healthy Start Vitamins and Health Trainers

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.

Our review of a sample of three contracts showed some common and specific issues which are detailed below:

- 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

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.

Management Comments from the Director of Public Health

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 14th 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.*

Highways Repairs and Maintenance Works

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.

From our review we found the following issues:

- Clear procedures needed to be put in place to document key roles, responsibilities and processes for ordering, payment control, variations control, post-inspections etc.
- 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.
- 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.
- 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;
- 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.

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.

Management Comments from Service Head Public Realm

- *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.*

Control and Monitoring of Cash Income and Disbursements (C&D)

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&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&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 16th March 2015, amounted to some £9.6M.

Our testing showed that a system was set up for receiving, recording and processing C&D Returns and to carry out reconciliations of amounts recorded on C&D returns with amounts banked. A system was also in place to manage the uploading of C&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&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 pro-active action to deal with issues like bankings not supported by C&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.

All findings and recommendations were agreed with the Interim Service Head, Finance and Procurement and final report was sent to the Corporate Director, Resources.

Management Comments from Service Head Finance and Procurement

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.

Youth Offending Service

The Youth Offending Service (YOS) comprises staff from a range of agencies, including the Council, Police, Probation Service and health care professionals. There are three teams within the Service – Early Intervention and Prevention Team, Court Team and Community Supervision Team.

The teams work with young people from arrest through to sentencing and provide services to the youth court, and work with young people given final warnings by the Police and those given community sentences. The Service also works with young people and the community to prevent young people from entering the criminal justice system. In addition, the Council has a number of schemes designed to prevent young people from re-offending by addressing the causes of criminal behaviour and offering help and support.

The Service works with approximately 250 to 350 youth offenders at any one time.
The audit was designed to provide assurance assurance to provide assurance to management as to whether the systems of control around the Youth Offending Service 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:-

- Examination of the purchase card statements for members of the Youth Offending Team (YOT) identified two officers who had failed to attach receipts to the bank statements on a monthly basis. When the two officers were approached on this matter they produced all receipts. In addition, receipts could not be located at all for two items of expenditure incurred on purchase cards.
- For a sample of 10 YOS officers tested, there was one instance where the DBS check was out of date but the officer had continued to work as a sessional support worker.
- We were unable to determine if a supervision policy was in place. Examination of one operations manager's records in respect of staff supervision identified that these were insufficient, as they took the form of an email and problems with cases were not clearly specified, which is not in compliance with guidance from the Social Care Institute for Excellence.
- The YOT Management Board, which is, amongst other roles, responsible for delivering the principal aim of reducing offending and reoffending, has an out of date Terms of Reference (ToR). The ToR refers to targets for the financial year 2010-2011.
- Recommendations from independent bodies have not been implemented. This refers to two recommendations by the HM Inspectorate of Probation.
- Youth Justice Board minutes for the heads of services meetings were not provided in respect of meetings held after September 2014, and so we are unable to provide assurance in this area.
- Although budget reports are produced, meetings are not held to discuss them.
- Discussion with the Office Manager identified that she is not informed of training undertaken by the staff of Operations Managers.

All findings and recommendations were agreed with the Service Manager Family Interventions/Troubled Family Co-ordinator and reported to the Service Head, Children's Social Care, and the Interim Corporate Director, Children's Services.

Management Comments Received from Service Manager, Youth and Family Interventions Service

The issues raised in this helpful audit process relate to historical management issues and period of time in the YOT when compliance, adherence to financial procedures and management oversight were at a lower level than should be acceptable.
Management changes in October 2015 have resulted in a much tighter compliance focus that has addressed all of the issues raised in audit. There has been clear communication between the Operational manager and the audit team that has confirmed progress, and progress reports have been made to the Youth Offending Management Board in November 2015 and February 2016. The Youth Justice Board have been closely involved in the progress of matters raised by audit as they relate to compliance to Youth Justice Standards.
There were no outstanding issues as of 25th February 2016.

Signing and Sealing of Contracts

This audit reviewed systems for the signing and sealing of contracts for goods, services and works procured by the Council. The delay in signing and sealing of contracts was included as an issue within the PWC Best Value Inspection Report.

From our review, we concluded that improvements were required in systems of control and information management flow to enable prompt contract advice, signing and sealing of contracts. The following weaknesses were highlighted:-

- A lack of procedures, templates and checklists to enable the prompt signing and sealing of contracts to take place.

- There appears to be an inefficient and elongated process from the project formation stage to receipt of the contract award notification, through to the signing and sealing of the contract.

- There was lack of a system for identifying the sources of the delay in signing and sealing of contracts and reporting this to Management so that the root cause can be identified and dealt with.

All findings and recommendations were agreed with the Acting Head of Legal Services and final report was issued to the Director of Law, Probity and Governance.

Management Comments Received from Service Head Legal Services

Following the issue of the final report, the action plan and the accompanying the recommendations are being progressed. We have discussed out approach with the audit team and would want to see an improvement when a follow up audit is carried out in due course.

Procurement and Contract Management/Monitoring Compliance

Our audits on the Council’s arrangements for procuring and monitoring various contracts found that effective monitoring of compliance with procurement procedures and contract management and monitoring was required at Directorate and corporate level with a view to strengthen the category management function. Quarterly off contract expenditure report was not being sent to the Financial Compliance Manager on a regular basis by Procurement to identify and escalate matters of non-compliance with Procurement procedures. Clear corporate guidance on contract management of revenue contracts have now been put in place to ensure that critical areas are effectively monitored throughout the life cycle of each contract so that benefits are derived from improved procuring and monitoring. Monitoring meetings needed to be more effective and financial benefits e.g efficiencies and savings emerging from each procurement needed to be clearly identified and monitored. In addition, the arrangements for monitoring and reporting of the successful delivery of community benefits by the procured contractors needed to be made robust.

The above matters have been raised in the Annual Governance Statement which includes an action plan to improve governance in this area.

Qualifications to the Opinion

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

Other Assurance Bodies

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

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

Risk Management Process

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

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

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

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

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

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

Comparison of Internal Audit Work

The Operational Plan for 2015/16 was based on an Audit Risk Assessment. This assessment model takes into account four assessment categories for which each auditable area is scored to gauge the degree of risk and materiality associated with each area. Auditable areas were prioritised according to risk and a plan was prepared in consultation with Heads of Service, the Section 151 Officer and the Council's external auditors.

The Internal Audit plan was agreed at the start of the year and revised in December 2015. A summary of the revised plan is provided at Appendix 2 for information. The table compares the plan to the work actually completed during the year.

Internal Audit Performance

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

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

External Audit continues to rely fully on the work undertaken by Internal Audit. This has resulted in the harmonisation of internal and external audit plans, so that external audit can place greater reliance on the work of internal audit. During the course of the year we have worked closely with the External Auditors to ensure that this approach is followed.

Compliance with CIPFA Code of Internal Audit Practice

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

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

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

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

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

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

Minor recommendations were raised and were addressed.

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

APPENDIX 8

Benchmarking Club Results

1. Benchmarking Club Results

1.1. Internal Audit has participated in the Audit Benchmarking Club administered by the Institute of Public Finance (IPF) since 1999/2000. IPF is a division of the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.2. The purpose of the benchmarking exercise is to provide comparative information which can form the basis upon which performance comparisons and value for money judgements can be made. Moreover, this information can also feed into the team planning process.

1.3. As part of the 2015/16 CIPFA benchmarking club the London Borough of Tower Hamlets was benchmarked against a range of Unitary Authorities selected either because the level of annual General Fund financial activity was similar, or annual total revenue, i.e., General Fund and HRA was similar. For the purpose of the benchmarking review the group with which LBTH internal audit was compared comprised 11 London Boroughs.

1.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £317 compared with the comparator group average of £390 per day. In comparison with the other London Boroughs, LBTH was a medium cost service. However, in terms of cost of the Audit service per million turnover, the group average was £606 against LBTH cost of £520, showing that the LBTH Audit service is relatively low cost as a whole.

Non-Executive Report of the: **Audit Committee** 28th June 2016	TOWER HAMLETS
Report of: *Zena Cooke - Corporate Director - Resources*	***Classification:*** *Unrestricted*
Annual Anti -Fraud Report 2015-16	

Originating Officer(s)	*Tony Qayum*
Wards affected	*All wards*

1. Introduction

1.1 This report provides the Audit Committee with an update of sensitive and reactive Anti-Fraud work undertaken during 2015/16*.

1.2 It captures the work of the Corporate Anti–Fraud team which includes Corporate Investigations, Housing Benefit Fraud Team Investigations, Social Housing Fraud Investigations and anti- fraud work around Parking Services.

2. Recommendations

2.1 The Audit Committee is asked to note this report.

3. Reasons for Decisions

3.1 The Audit Committee can gain assurance around the work of the Council's anti fraud activity and in particular, the Council's legal obligations to participate in the National Fraud Initiative.

4. Alternative Options

4.1 The Committee does not receive or consider the annual report or decides that it wishes to receive further updates on matters raised in the annual report.

5. Background

5.1 This report provides Audit Committee with a summary of work on sensitive and reactive enquiries undertaken during 2015/16*. It includes an overview of the results of the investigations carried out by Housing Benefits Investigations*, the Parking Service, and the Social Housing Fraud Investigation service.

*The Housing Benefit fraud Team transferred to the DWP on 1 February 2016.

5.2 The following chart shows the resources expressed as full time equivalent (FTE) posts of the key services included within this report.

Service	FTE	Role
Risk Management	1	• Corporate Anti-Fraud Manager
	1	• Corporate Anti-Fraud Team Leader
	2	• Corporate Anti-Fraud Investigator
	2	• Tenancy Fraud Officers
	1	• Temp Tenancy Fraud Officer – THH Funded
Housing Benefits Fraud Team	2	• Team Leaders
	6	• Investigation Officers
	1	• Intelligence Officer
	1	• Intelligence Assistant
Parking Services	1. 5	• Parking Fraud Investigation Officers

5.3 An analysis of the notional savings achieved covering the work of the anti - fraud and reactive work carried out by the team is attached as Appendix A.

6. Key matters arising from the Service Outturn for 2015-16

6.1 There have been six substantial inquiries which have involved close working between the relevant Directorates, the Corporate Anti- Fraud Service, the DWP, Police and Legal Services.

6.2 The resultant investigations covered an extensive range of systems and processes and required substantial staff resources to finalise all of the issues relating to criminality.

6.3 The Corporate Anti–Fraud service has also provided support to Directorates upon request. This included an ongoing review of the National Fraud

Initiative, investigations into potential systems abuses in front line services and a range of investigations into allegations of financial impropriety from a range of referrals.

6.4 We also undertook a systematic review of Grants following ongoing allegations around the provision of service, suitability of award and associated matters. This led to a 'Service Type' review covering Declaration of Interests, use of Purchase cards and HR related matters.

6.5 We have also undertaken a detailed service review of the Youth Service resulting in extensive systems findings that have covered more corporate systems as well as service specific issues.

6.6 We have worked closely with the DWP Organised Fraud unit and London borough of Redbridge on an extensive fraud involving false pay details associated with EEA workers. The total value of the fraud was £1.6 million pounds including £600k for LBTH, £578k for LB Redbridge and £420k in Tax Credits.

6.7 For Tower Hamlets this meant 56 claimants for both Housing and Council Tax Benefit and the investigation identified three 'ringleaders' who were prosecuted at Snaresbrook Crown Court and sentenced in April 2016. The three accused were imprisoned for 5.5 years 3.3 years and 3 years respectively.

6.8 The resultant enquiries have been widely publicised and we have been shortlisted by the Association of Local Authority Risk Management for an award for our pro- active joint working.

6.9 The expectation is that we will have an eventual Housing Benefit Overpayment of circa £1m when all of the cases that have been affected by this fraud are assessed.

6.10 We are continuing to work closely with the DWP Organised Fraud unit on other potentially concerning employers who may have falsified income records in the same way.

6.11 We have continued to work closely with the Council's Legal Service on a number of matters including employment law issues and governance matters including Money Laundering, Whistleblowing processes for all types of whistleblows on fraud, corruption and professional practice including care and safeguarding matters (this is covered in a separate report elsewhere on the agenda) Data Protection and the Parking Service with regard to Blue Badge irregularity and worked corporately where instances of reputational concern and or fraud have been identified.

6.12 We have continued to support the Housing Tenancy Fraud Investigators to assist the Council in tackling Sub Letting of Tower Hamlets Homes and Registered Social Landlord properties.

6.13 We have organised several training sessions with staff and external bodies/visitors on Anti-Fraud and Corruption matters as part of our proactive initiatives and more are planned for this financial year, together with training exercises with our Risk Management Service.

6.14 We have continued to deliver against the Service Level Agreement with Parking Services and undertaken Pro- active initiatives with the Police and Community Safety Service.

6.15 We have continued to play an active part in the London Boroughs Fraud Investigation Group, a multi borough working group to focus on enhancing the effective response to fraud risks in the public sector.

6.16 Following the transfer of the HB Fraud Investigation team to the DWP we have developed the Intelligence team to take forward new areas of work including corporate work that affects the Council directly and by picking up trends we intend to inform the Risk Management service on emerging risks as they are identified.

7. The National Fraud Initiative (NFI)

7.1 The National Fraud Initiative (NFI) data matching exercise has continued to be supported, and our efforts continue to maximise the benefits from its output. The Cabinet Office now manages this role since the closure of the Audit Commission in March 2015.

7.2 The National Fraud Initiative and the outcome of the last exercise is covered in a separate report to be found elsewhere in the agenda.

7.3 The Corporate Anti-Fraud service has undertaken detailed reviews of all subject areas to ensure the final out turn for the exercise is robust and evidenced based.

7.4 The following is a summary of the results of the LBTH outcome from the NFI work –

A total of £1,045,069 (£988,240 from the main exercise and £56,829 from the C/Tax exercise) has been identified as monetary losses in total so far. The 2014 exercise will be drawing to a close later this year. A breakdown of the above is as follows:

- HB/CTR/CTB overpayments amount to £569,684
- DWP overpaid benefits amount to £237,054
- Administrative Penalties levied amounts to £15,074
- Pensions amounts to £14,819.00
- Payroll related amounts to £29,312
- Creditors duplicate payments identified amounts to £122,297
- Council Tax SPD for the 2014/15 exercise is £56,829

8. Other Activity

8.1 The following work areas have been undertaken, during 2015/16 by the Corporate Anti-Fraud Team:-

- On-going liaison and support to corporate and departmental personnel;
- Proactive joint working with other Local Authorities, the Police, the DWP, Registered Housing providers and other government Agencies; and
- Ongoing training and development with the services within the Council

9. Housing Benefits Investigation Service

9.1 The Housing Benefits Investigation Service was responsible for the reactive and proactive management and investigation of Local Government benefit fraud, including:-

- Benefits Whistle-blowing hotline;
- Internal Referrals;
- External Referrals (Agencies and public);
- Joint working with Department of Work and Pensions (DWP);and
- Data matching referrals (NFI and Housing Benefit Matching Service output from DWP);

9.2 During 2015/16 the Service had had the following successes:-

Breakdown of Prosecutions & Sanctions 2015-16	
Convictions (Benefits)	29
Penalties(c tax)	4
Admin Penalties (Benefits)	29
Admin Penalties (CTR)	9
Cautions (Benefits)	19
Cautions (Parking)	22
TOTAL	112

9.3 The service transferred to the DWP on 1st February 2016.

10. Social Housing Recoveries

10.1 The team achieved 34 recoveries for the year and were able to prevent 7 Right to Buy sales from going forward that represents a saving of in excess of £102,300 per unit in non-applied discounts.

10.2 In January we launched a Key Amnesty which ran until 6 March and resulted in the handing back of 8 units. The Amnesty was very well publicised in the media and picked up by Radio London and the BBC who ran a case study which highlighted the benefits to the community in releasing units for the use of genuine potential tenants and a recently housed tenant was highlighted and interviewed as she had been awarded a unit we had previously recovered. The Mayor was also interviewed to set the corporate picture.

10.3 The positive publicity that the Amnesty gave resulted in 67 referrals being received and from those 50 have been evaluated for further follow up and investigation.

10.4 We have also focused on Right to Buy cases and assisted Tower Hamlets Homes and the Councils legal service on improved verification arrangements of financial circumstances and introduced anti- money laundering documentation to satisfy ourselves that we are disposing of assets correctly.

10.5 We continued with the data matching exercise with a commercial organisation in December 2013 which has enabled us to match data on tenancies to credit histories in order to improve our intelligence of suspected subletting. This was repeated in January 2015 and has assisted in helping to target higher risk cases for examination.

10.6 The success of the team is unquestioned with in excess of 200 recoveries since the team was created in 2010 and a significant impact on systems and processes to improve the Council's Lettings Service as well as improvements to systems and better controls within our ALMO- Tower Hamlets Homes.

10.7 The team consists of three staff which have been successfully funded via the Council are continuing to perform as part of the Corporate Anti-Fraud team resource.

11 Parking Services

11.1 The Parking Service investigations have resulted in 6 Parking fraud cases being presented for prosecution. All of which were successfully resolved.

11.2 There were also 120 Recovered Disabled badges and 46 Recovered Resident Parking Permits together with 31Penalty Notices issued and 14 vehicle Removals to the Car pound. In addition the team assisted with the identification and removal 14 vehicles that had been classed as Persistent Evaders representing a ticket liability of £96,595.

12 Comments of the Chief Financial Officer

12.1 This report is an update of reactive and Anti - Fraud work undertaken during 2015/16. A total of £1,045,069 has been identified as monetary losses through the National Fraud Initiative (NFI) work – see section 5.4 for more details.

12.2 There are no specific financial implications emanating from this report.

13 Legal Comments

13.1 This report advises of the work of the Anti-Fraud Service undertaken during 2015/16 including Enforcement Investigations.

13.2 Where the Council takes enforcement action as a result of an investigation then it does so in accordance with the Council's Enforcement Policy. The Enforcement Policy provides that the Council's approach to enforcement is founded on firm but fair regulation, around the principles of:

- **raising awareness** of the law and its requirements
- **proportionality** in applying the law and securing compliance
- **consistency** of approach
- **transparency** about the actions of the Council and its officers
- **targeting** of enforcement action.

13.3 The Council is required when exercising its functions to comply with the duty set out in section 149 of the Equality Act 2010, namely to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity between those who share a protected characteristic and those who do not, and foster good relations between those who share a protected characteristic and those who do not. An equality analysis was conducted prior to approval of the Enforcement Policy by Cabinet on 3 October 2012. It is recognised that Enforcement action may lead to indirect discrimination in limited circumstances but prior to taking any proceedings, an assessment as to whether the case meets the two stages in the Code for Crown Prosecutors is undertaken so that there is both a realistic prospect of a conviction and that it is in the public interest to prosecute. Further, proceedings are kept under review once initiated.

14 One Tower Hamlets

14.1 There are no specific one Tower Hamlets considerations.

14.2 There are no specific Anti-Poverty issues arising from this report.

15 Best Value Implications

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

16 Risk Management Implications

16.1 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.

17 Sustainable Action for a Greener Environment (SAGE)

17.1 There are no specific SAGE implications.

18 Crime and Disorder Reduction Implications

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

APPENDIX A				
	No.	Notional future savings value	Notional future savings value total	Actual Value
NFI (Final 2 year outturn)				
Identified value of overpayment/losses - recovery in process				**1,045,069**
Housing properties recovered.	***34***	75,000	**2, 550,000**	6,800,000*
				7,845,069
Value of other Anti Fraud work carried out in 2015/16				
Benefits Prosecutions	**29***	3,200	692,800*	
Benefits Cautions	**19**	1,200	22,800	
Benefits Administrative penalties	**29**	1,200	34,800	
Resident Parking Recoveries	**22**	8,000	176,000	
Right to Buy Prevention	**7**	102,300	716, 100	
Blue badge recoveries	**120**	8,000	960,000	
Persistent Evaders	**14**			**96,595**
* 3 Prosecutions were related to the EEA fraud valued at £600K				
overall totals			**5,152,500**	**7,941,664**

*** Figure based on a conservative open value valuation of £200,000 per unit.**

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Non-Executive Report of the: **Audit Committee** 28 June 2016	TOWER HAMLETS
Report of: Chris Holme (Service Head Resources and Economic Development)	**Classification:** Unrestricted

Independent Review of s106 Management Arrangements

Originating Officer(s)	Chris Holme (Service Head Resources and Economic Development), and Andy Simpson (Business Improvement & s106 Programme Manager)
Wards affected	N/A

Summary

- As part of their report on the Council's accounts for 2013/14, and report to those charged with the Authority's governance (ISA 260 report), the external auditors raised issues regarding the arrangements for managing s106 receipts and payments.
- The Council agreed, in response to the issues raised, that an independent review be commissioned to assess current processes, checks and balances, and monitoring arrangements – to provide assurance that payments are made in accordance with agreements and aligned to original planning consents.
- The review was undertaken by Grant Thornton UK LLP, and completed in March. Their review report is attached (Appendix 1).
- Officers welcome the review findings, and in response to the recommendations, have set down a series of improvement actions, and progress to date in their implementation. These are also attached (Appendix 2).

Recommendations:

The Audit Committee is asked to:

- Consider the findings of the independent review of s106 management arrangements and comment on the improvement plan

1. REASONS FOR THE DECISIONS

1.1 KPMG, the Council's external auditor presented their final report to those charged with governance (ISA260) 2013/14 to Audit Committee is September 2015. A specific recommendation of that report was that the Authority should independently review its arrangements in relation to s106 receipts and payments. In the interests of good governance and transparency the outcome of that review is now being reported back to Committee, and Members consideration being sought on the improvement action plan and progress to date on its implementation.

2. ALTERNATIVE OPTIONS

2.1 That Committee doesn't consider the independent review, nor comment on the action plan.

3. BACKGROUND

3.1 In September 2015, KPMG presented to this Committee their report on the audited accounts for 2013/14, along with consideration for those charged with governance of the Authority of arrangements to secure economy, efficiency and effectiveness in its use of resources. The ISA 260 report took account of matters raised in the PwC Best Value Inspection, the Mayoral election judgment of April 2015, and other matters raised by DCLG, the Commissioners, Members and the public.

3.2 An area of concern raised with KPMG related to the administration of s106 payments. The matters referred to them, and their consideration of them is set out below:

Area	Consideration
Section 106 Queries have been raised with us as to the operation of s106 payments. In particular: ■ whether s106 agreements are in accordance with the original planning consents; ■ whether payments have been made in accordance with the agreements (in particular some agreements in relation to public art were raised with us); ■ whether payments are being made on a timely basis; and ■ the delay in concluding the review of a funding arrangement relating to the delivery of projects funded by certain s106 monies	As a consequence of the issues raised we extended our work in this area. In particular we extended our testing of payments and traced a sample of items from original planning consents through to current payments. We also enquired about the payments made in relation to public art and the review of the funding arrangement. With the exception of the items of public art our testing indicated the s106 payments were in accordance with the agreements, which aligned to the original planning consents. In the case of public art there were five items identified where s106 payments had been made on the basis that a piece of public art would be commissioned and displayed. In two cases (a payment of £90,000 and an initial payment of £10,000) the monies do not appear to have been used for a piece of public art. For the remaining three, no payments have yet been made in relation to the schemes. We reviewed the papers in relation to the £90,000 scheme and note that the change in how the £90,000 was to be used followed the procedures laid down and included obtaining the specific consent of the developers to the change proposed by the Authority. Payments to date have been made in accordance with the timescales agreed with developers, although we note some, with significant balances remaining, are reaching the time limits set out in agreements and some instances where payments were made in advance of the receipt of s106 monies by temporarily using other s106 monies. In relation to the funding arrangement this was reviewed in 2011 and the outcome of the review delayed within the then Mayor's office. We have not been able to establish the reason for the delay. We note that recently the current Mayor has authorised the funding agreement to continue. We have raised a recommendation in relation to s106 in Appendix 1, recommending that an independent review of the processes, controls and overall monitoring should be undertaken

3.3 KPMG set out their findings and recommendation as set down below.

Issue and Recommendation	
S106 arrangements Our consideration of s106 arrangements highlighted that: ■ the spreadsheet to record s106 receipts and payments did not cast; ■ that certain items appear not to have been paid strictly in line with the original agreements; ■ there were funds relating to one scheme that we tested that were close to the deadline for spending the s106 funds, and the plans in place would not be completed before the deadline; and ■ there were instances where payments were made in advance of receiving s106 monies, temporarily utilizing other s106 funds. **Recommendation** The Authority should independently review its arrangements in relation to s106 receipts and payments to ensure they are effective and there are robust processes, controls and monitoring arrangements in place to ensure payments are made in accordance with agreements and aligned to original planning consents	Agreed - An independent review of the arrangements in relation to s106 receipts and payments will be undertaken to ensure effective and robust processes, controls, monitoring and reporting arrangements are in place, in accordance with agreements and aligned with the planning consents. Responsible officer: Chris Holme Due Date: March 2016

3.4 In accordance with the recommendation for an independent review, an outline brief was prepared and provided to KPMG for their consideration. KPMG's comments were incorporated before the Council went out to procurement in December.

3.5 Grant Thornton were selected as the preferred bidders for the review which commenced in February 2016. Fieldwork involved a desktop review of the council's processes, policies and documents as well as financial and project data. This desktop review was complemented by a range of qualitative interviews with both operational and strategic officers dealing with s106 funding and programming processes. The review was finalised in March 2016.

4. S106 PRIORITISATION

4.1 The Council's approach to securing planning obligations, and methodology in calculating contribution requirements are set out in the S106 Planning Obligations Supplementary Planning Document (SPD 2012) http://moderngov.towerhamlets.gov.uk/ieListDocuments.aspx?CId=320&MId=3417&Ver=4. This document formalises that contributions are generally secured for the following themes; Affordable Housing, Education, Community & Leisure Facilities, Employment and Enterprise, Health, Sustainable Transport, Environmental Sustainability and Public Realm & Public Open Space.

4.2 In order to agree and if necessary prioritize the Council's s106 requests, the proposed s106 package of a development was reported to the Council's Planning Contribution Overview Panel (PCOP). PCOP being an internal, cross directorate officer-led panel set up by Cabinet in 2004 as having authority, under delegated powers, to discuss the acceptability of the applicant's s106 offer and the apportionment of financial planning obligations, monitor the implementation and expenditure of s106 agreements and monies, and ensure delivery in accordance with the terms of the relevant agreement.

4.3 Following agreement of the s106 package on major developments, and when planning permission had been granted, S106 monies are then paid in installments at key stages during throughout the construction lifecycle (for example upon commencement of completion of the development).

5. REVIEW FINDINGS AND IMPROVEMENT ACTIONS

5.1 Central to the review were the following areas of council process around s106 payments & programming.

5.1.1 Recording s106 Income and Expenditure

- The council's current processes in place regarding the accurate recording of s106 income and expenditure.

5.1.2 Ring-fencing & Programming s106

- The council's current processes in relation to the ring-fencing and programming of s106 contributions to ensure teaming and lading does not occur.

5.1.3 Governance & Decision Making

- The council's current governance and decision making structures in relation to the management of s106 contributions, particularly with regard to processes around any variations to s106 agreements in terms of what money can be expended on.

5.1.4 Monitoring & Reporting

- The council's current processes in relation to the monitoring of s106 contributions to ensure monies are spent in accordance with conditions including within the required timelines (and any escalation thereof)
- The suitability of monitoring and reporting both within the department, to executives and any relevant committees.

5.2 The final report is attached as Appendix 1. It highlights a number of positives to provide assurance concerning governance arrangements, given the size of the s106 portfolio. However, it does identify a number of weaknesses, which officers acknowledge and, in line with the review recommendations, are actively progressing improvements. The improvement plan, along with progress to date is attached as Appendix 2.

5.3 The review report sets out eleven recommendations covering each of the above areas. These are:

5.3.1 Recording s106 Income and Expenditure;

- The Council should consider procuring integrated s106 and CIL Software.

5.3.2 Ring-fencing and Programming s106

- Should the Council forward-fund projects using the General Fund, an audit trail should specify that the money used is from the Council's General Fund or reserves
- The Council should consider the requirement to adopt the capital estimate process to gain Cabinet approval for Capital expenditure previously approved as part of the Capital Programme.
- The Council should review the RCDA procedure and investigate whether a more streamlined process which enables more rapid delegated funding approval
- The Council should build flexible capacity within the s106 programme team and directorates in order to maintain pace with the Capital Programme.

5.3.3 Governance and Decision Making

- The Infrastructure Delivery Steering Group (IDSG) should clarify the distinction between those charged with governance and those with responsibility for delivering the programme.
- The Council should consider grouping small projects together into programme level PIDs for approval and monitoring purposes.
- The Council should consider receipting income and notifying developers of discharge of obligation in every case as standard procedure.

5.3.4 Monitoring and Reporting

- Bi-annual exception reports to PCOP should be integrated with the s106 Portfolio Summary Report to form part of the standard report to the IDSG.
- The Council should further develop its reporting on time-limited contributions.
- PCOP's agenda should include a regular item for monitoring and reporting non-financial agreements.

5.4 A key recommendation is the need for more integration between the Council's planning and financial systems. This was a development already in progress, as part of the work facilitating the implementation of the Community Infrastructure Levy. However full implementation is programmed to follow essential upgrades to existing planning, income and financial systems.

5.5 Since the report was published, the former Planning Contributions Overview Panel has been replaced by the new Community Infrastructure Levy and s106 governance arrangements as agreed by the Mayor in Cabinet on the 5th January. The arrangements aim to improve transparency and accountability of decision-making

5.6 The review recommendations have been accepted by officers, and the deadline for full implementation of all 11 improvement actions is by the end of the current calendar year. Committee is asked to review and comment upon the actions.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Following concerns raised by the council's auditors (KPMG) during the audit of the 2013-14 accounts, this report provides an update to the Audit Committee on the subsequent independent review that has been undertaken into the Council's arrangements for managing Section 106 receipts and payments.

6.2 Appendix 1 of this report contains the final report into the review that was undertaken by Grant Thornton, with a summary of the action plan included as Appendix 2. This details the progress that has been made against the various improvement recommendations that were made following the review, several of which had already been addressed as part of the new Infrastructure Delivery Framework (IDF) that came into effect from April 2016 (see below).

6.3 Following the introduction of the Community Infrastructure Levy (CIL) system in April 2015, the council reviewed its procedures for managing the allocation and reporting processes for both CIL and the remaining elements of the Section 106 planning process. Over recent years, Section 106 resources have been allocated to schemes following consideration by the officer Planning Contributions Overview Panel (PCOP). On 5th January 2016, the Mayor in Cabinet approved the proposals for the introduction of an Infrastructure Delivery Framework to replace the PCOP process. The new system involves an officer 'Infrastructure Delivery Steering Group' providing recommendations to an 'Infrastructure Delivery Board', which in turn will propose funding allocations for ultimate approval by the Mayor in Cabinet.

6.4 A report on the Governance proposals for the Infrastructure Delivery Framework is scheduled to be considered by the Mayor in Cabinet on 26th July 2016. That report will seek approval for a number of complementary processes to be adopted to enable the IDF process to operate in an effective and transparent manner, and will address several of the recommendations that were highlighted in the Grant Thornton review, and that are summarised in Appendix 2.

6.5 To assist the monitoring process, an IT system that will support the programme management of both Section 106 and CIL contributions has recently been procured. It is anticipated that the database will be fully functional by the end of 2017. The cost of the system, including the initial data migration, is estimated at £26,000, funded from the 4% administration 'top-slice' which the council can retain from CIL receipts. After initial external support with the data migration process, the system will be maintained by council staff within existing resources.

6.6 Most section 106 agreements have expiry conditions associated with them and it is essential that all necessary requirements are met to mitigate the risk of clawback of contributions by developers. A total of £4.1 million of section 106 contributions are due to expire by February 2018. Conditions vary between agreements, with some requiring that the funding is committed by the expiry date, while others specify that the resources have to be fully spent. The Council takes a pro-active approach to the management of contributions, ensuring that any that are due to expire within a two year period are reported to the monthly Infrastructure Delivery Steering Group where action is taken to accelerate the utilisation of these funds before expiry. In addition to the IDF reporting framework, financial data in respect of both CIL and Section 106 will be included in future quarterly Corporate Revenue and Capital Budget Monitoring reports that are considered by Cabinet.

7. LEGAL COMMENTS

7.1 The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This is the Council's Best Value Duty (or value for money).

7.2 The Council is also required to appoint auditors for the purposes of forming an opinion on the financial statement; reviewing the Annual Governance Statement; and the auditors are required to report whether, in their opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they has been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. The auditors are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

7.3 KPMG are the Council's auditors and in reporting to the Council, KPMG are required to comply with an International Standard on Auditing (ISA260) and which sets out their responsibilities for communicating with those charged with governance in an audit of financial statements. The report (known as the ISA260) summarises the key issues identified during the audit of the financial statements and advises of any recommendations for action.

7.4 In the ISA260 for 2013/14, KPMG made certain recommendations including relation to section 106 planning obligations. As a result of these, the Council commissioned for an independent review to be undertaken to assess current processes, checks and balances, and monitoring arrangements and to provide assurance that payments are made in accordance with agreements and aligned to original planning consents. Grant Thornton UK LLP were appointed to undertake this independent review and this report advises of their review.

7.5 Whilst the report of Grant Thornton UK LLP highlights a number of positives to provide assurance concerning governance arrangements, it does identify a number of weaknesses and which officers have acknowledged. Eleven (11) recommendations were made and which have been accepted and are being progressed. All these recommendations are capable of being carried out within the Council's powers.

7.6 When making decisions, 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 do not (the public sector equality duty). There are no direct equality implications arising from this report.

8. ONE TOWER HAMLETS CONSIDERATIONS

8.1 Maximisation of S106 contributions and their effective utilisation are key to mitigating the impacts of development on local residents and ensuring key facilities and services are provided where they are needed, helping to reduce inequality and fostering cohesion.

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9. BEST VALUE (BV) IMPLICATIONS

9.1 KPMG will reassess s106 arrangements as part of the 2015/16 on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

10.1 There are no SAGE implications arising out of this report.

11. RISK MANAGEMENT IMPLICATIONS

11.1 There are no specific risk management implications

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 There are no crime and disorder reduction implications.

Linked Reports, Appendices and Background Documents

Linked Report

- Review of s106 programme management processes – Grant Thornton - March 2016 (App1)

Appendices

Appendix 1 – Review of s106 programme management processes – Grant Thornton

Appendix 2 – Improvement Action Plan

Local Government Act, 2000 (SECTION 97)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	Name and telephone number of holder and address where open to inspection
S106 programme working files	Andy Simpson, Ext. 1376

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Grant Thornton
An instinct for growth™

Review of s106 programme management processes
London Borough of Tower Hamlets

7 March 2016

Final Report

Grant Thornton

An instinct for growth™

Our Ref LBTH/GC/ER

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7 March 2016

FAO: Mr Andy Simpson, Business Improvement & Programme Manager

Dear Sir

Independent review of Section 106 programme management processes
Final Report

We have pleasure in enclosing a copy of our report (the 'Report') containing the findings from our review of London Borough of Tower Hamlets' (the 'Council') Section 106 (s106) programme management processes (PMP). The scope of this review was agreed in Grant Thornton's proposal of January 2016 and the contract between Grant Thornton and the Council dated 10 February 2016.

Notwithstanding the scope of this engagement, responsibility for management decisions will remain with the Councils and not with Grant Thornton UK LLP.

Context

The Council has commissioned this review in response to the audit findings report provided by the Council's external auditors KPMG. In addition, in the face of a number of recent developments in the way the Council plans to manage s106 contributions, and owing to the scale and pace of development in Tower Hamlets and the large levels of s106 monies received, you have sought an independent review of your s106 PMP.

Limitation of liability

We draw the Councils' attention to the limitation of liability clauses in paragraphs 4.1.1 to 4.1.8.2 in the "Contract for the provision of consultancy services between the London Borough of Tower Hamlets and Grant Thornton UK LLP" dated 10 February 2016.

Forms of report

For the Council's convenience, this report may have been made available to the Council in electronic as well as hard copy format, multiple copies and versions of this report may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.

Confidentiality and reliance

This report is for sole use of the Council. We stress that our report and other communications are confidential and prepared for the addressee(s) only. They should not be used, reproduced or circulated for any other purpose, whether in whole or in part without our prior written consent, which consent will only be given after full consideration of the circumstances at the time. We agree that an addressee may disclose our report to its employees, officers, Members, directors, insurers and professional advisers as required by law or regulation, the rules or order of a stock exchange, court or supervisory, regulatory, governmental or judicial authority without our prior written consent but in each case strictly on the basis that we owe no duties to any such persons.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the addressee(s) for our work or for our report and other communications.

To the fullest extent permitted by law, we do not accept any responsibility for any loss or damages arising out of the use of the report or other communications by the addressee(s) for any purpose other than in connection with the Purpose.

General

The report is issued on the understanding that the management of the Council have drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our report up to the date of signature of this report. Events and circumstances occurring after the date of our report will, in due course, render our report out of date and, accordingly, we will not accept a duty of care nor assume a responsibility for decisions and actions which are based upon such an out of date report. Additionally, we have no responsibility to update this report for events and circumstances occurring after this date.

We would like to thank the Council's officers for making themselves available during the course of the review.

Yours faithfully

Grant Thornton UK LLP

Contents

Executive Summary

Executive summary

This review of Section 106 programme management processes was commissioned to provide the Council with an independent view on whether the controls it has in place for dealing with s106 planning obligations are robust, transparent, sound, and secure to achieve the objectives of the Council.

Summary

The Council can take assurance that its programme management processes (PMP) for Section 106 (s106) contributions effectively manage the current levels of challenge and risk faced by the programme and the current size of the s106 portfolio.

The s106 programme team's appreciation of the risks it faces is a strength. The most notable programme risks, such as inaccuracy of recording and monitoring of income and expenditure, and proximity to expiration of some time-limited contribution have been identified by the Council and the s106 programme has taken steps to manage them.

Whilst the identification and management of these risks is a strength, the processes themselves are not efficient. The use of locally held Microsoft Excel spread sheets that require frequent reconciliation with the Council's finance system leads to duplication of effort and are susceptible to human error. These risks are causing the Council concern, and it is considering investing in software that would help mitigating them further.

The critical success factor for the s106 programme is the coordination and drive provided by the programme team and the regularity and strength of collaboration between directorates. These are underpinned by the Council's rigorous approach to project management governance (based on PRINCE2 methodology), which is enforced throughout the s106 programme and ultimately by the Planning Contributions Overview Panel (PCOP).

The s106 programme's transparency is also a strength, and PCOP publishes decisions online. The s106 programme also publishes bi-annual newsletters on projects completed using s106 funding. The decision to develop a new governance and decision making structure for the approval of s106 contributions, the Infrastructure Delivery Framework (IDF), will make s106 allocation more transparent as funding decisions will be ratified by the Mayor in Cabinet from April 2016.

The s106 programme team should now look to raise its profile within the Council and demonstrate its transparency to internal stakeholders. It is important that PCOP decisions and successful project outcomes are shared with colleagues.

Going forward, the Council's key area for improvement and challenge will be ensuring it develops the capacity to manage the anticipated uplift in s106 and Community Infrastructure Levy (CIL) receipts. This uplift will further emphasise the need for accurate recording and monitoring of income and expenditure and exploit and highlight any issues in the Council's capital commissioning processes.

In order to meet this uplift the Council will need to exploit the opportunities available to develop efficiencies in its s106 governance processes. We recognise that the Council has gone some way to finding these efficiencies in their outline plans for the IDF. However, our review of current arrangements has identified three opportunities to drive improvements in this area. Firstly; the Council must ensure that its capital expenditure approval process is efficient. Secondly, the s106 funding approval processes must align with the capital expenditure approval process. Thirdly, the Council should look to integrate its approach to managing s106 and CIL.

In particular, the requirement to adopt the capital estimate for each aspect of the approved capital programme, which is required prior to project expenditure being authorised is contributing to delays in commissioning and the increasing balance in the Council's s106 account.

Recommendations

Recommendations

Our review has set out 11 recommendations for the Council to consider. In considering these recommendations it is important to note that this work was commissioned to review the Council's existing arrangements only. We recognise that the Council is developing an IDF and that new arrangements will to a certain extent, adopt some of the measures set our below.

1

Recording s106 income and expenditure

Finding: Despite effective recording of s106 contributions, Microsoft Excel may not be the most suitable tool monitoring tool for income and expenditure. It contributes to inaccuracy and is labour-intensive.

Recommendation: The Council should consider procuring integrated s106 and CIL Software. This information system should allow both income, expenditure and programming information to be co-located and should integrate the processes by which s106 and CIL are allocated, monitored and implemented across the Council.

2

Ring-fencing & Programming s106

Finding: Due to the unavailability of historic income data (owing to changes in your finance system in 2013) testing on this issue was restricted to income received post-2013. We found no evidence of 'teaming and lading' since 2013.

Recommendation: Should the Council forward-fund projects using the General Fund (whilst waiting for confirmed s106 income to be received), there should be a clear audit trail which records the decision and transaction. Such an audit trail should specify that the money used is from the Council's General Fund or reserves and not from another s106 contribution.

3

Ring-fencing & Programming s106

Finding: Adopting the capital estimate process to gain approval for the prior-approved capital programme is delaying commissioning of projects.

Recommendation: In implementing the IDF the Council should consider the requirement to adopt the capital estimate process to gain Cabinet approval for Capital expenditure previously approved as part of the Capital Programme or subsequently as an amendment to the Capital Programme.

4

Ring-fencing & Programming s106

Finding: The Register of Corporate Director's Actions (RCDA) process is contributing to delays to the commissioning of projects.

Recommendation: When implementing the IDF the Council should review the RCDA procedure and investigate whether a more streamlined process which enables more rapid delegated funding approval will still achieve the same results without sacrificing the quality of oversight and accountability.

5

Ring-fencing & Programming s106

Finding: The Council's receipts from s106 and CIL are due to increase which may place a strain on programme support availability.

Recommendation: The Council should build flexible capacity within the s106 programme team and directorates in order to maintain pace with the Capital Programme. This capacity building could be through training, or increasing its officer resources, or through considering alternative methods of commissioning.

6

Governance & Decision Making

Finding: The Council will need to develop clear terms of reference for the Infrastructure Delivery Steering Group (IDSG).

Recommendation: Terms of Reference for the IDSG should clarify the distinction between those charged with governance and those with responsibility for delivering the programme. These are currently unclear in PCOP's Terms of Reference.

Recommendations (continued)

Our review has set out 11 recommendations for the Council to consider. In considering these recommendations it is important to note that this work was commissioned to review the Council's existing arrangements only. We recognise that the Council is developing Infrastructure Delivery Framework and that new arrangements will to a certain extent, adopt some of the measures set our below.

7

Governance & Decision Making

Finding: The Council has a pragmatic and proportional approach to governance that should be taken forward with the IDF.

Recommendation: Acknowledging the Council's pragmatism thus far, the Council should consider grouping small projects together into programme level PIDs for approval and monitoring purposes.

8

Governance & Decision Making

Finding: There have been occasions when receipt of payment and notice of discharge of obligations has not been provided by the Council to a developer.

Recommendation: The Council should consider receipting income and notifying developers of discharge of obligation in every case as standard procedure. This will improve transparency and strengthen the income recording process.

9

Monitoring & Reporting s106

Finding: The Council provides bi-annual exception reports to project slippage to PCOP.

Recommendation: Bi-annual exception reports to PCOP should be integrated with the s106 Portfolio Summary Report to form part of the standard report to the IDSG. This will actively manage the risk presented by time-sensitive contributions and ensure that the IDSG is proactive in driving corrective action by holding service managers to account for project slippage.

10

Monitoring & Reporting s106

Finding: The s106 programme team provides a high level report on time-limited contributions to PCOP.

Recommendation: The Council should further develop its reporting on time-limited contributions. A dashboard or traffic-light based report, setting out which time-limited contributions have been programmed and which have not, and similarly which projects funded by time-limited contributions have stalled would enable PCOP or IDSG to easily assess the risk they face and take prompt mitigating action.

11

Monitoring & Reporting s106

Finding: PCOP's standing agenda does not include the monitoring of non-financial contributions. (We understand from PCOP minutes that these reports are considered.)

Recommendation: In accordance with the August 2013 Internal Audit report's original recommendation, PCOP's agenda should include a regular item for monitoring and reporting non-financial agreements.

Background & Context

Background and context

Background

The Council's programme management of s106 obligations has been subject to a high degree of scrutiny in recent years. Internal Audit in particular has assessed s106 processes over the course of a number of audits, most recently in August 2013. These audits identified a range of issues and made recommendations for their rectification. These are explored further in the findings of this review.

In addition to Internal Audit scrutiny, the Council's external auditors KPMG, identified a number of issues relating to the operation of s106 payments. As a consequence of this they extended testing of payments and traced a sample of items from original planning consents through to current payments. Following this further testing, KPMG's consideration of the Council's s106 arrangements highlighted that:

- the spread sheet to record s106 receipts and payments did not cast;
- that certain items appear not to have been paid strictly in line with the original agreements;
- there were funds relating to one scheme that were tested that were close to the deadline for spending the s106 funds, and the plans in place would not be completed before the deadline; and
- there were instances where payments were made in advance of receiving s106 monies, temporarily utilizing other s106 funds.

As a consequence of these findings, which are further explored as part of this review, KPMG, in their "Final report to those charged with governance" of September 2015 recommended the council commission an independent review of s106 PMP.

Context

Against the back drop of this scrutiny and the recommendation for an independent review, the context in which s106 contributions are being managed is changing.

The Council's governance and decision making structure for s106 contributions is due to be updated in April 2016. This new framework (the IDF) will bring about a number of changes, including placing decision making responsibility for the allocation of s106 funding into the hands of the Mayor in Cabinet. There are a number of drivers for these changes. These include:

- Change in political leadership at the Council and the increased emphasis being placed on transparency and public accountability
- The increasing volume of CIL receipts that are starting to be generated and the Council's ambition to develop joined up processes
- The Council's commitment to continuous improvement and ambition to generate efficiencies in the processes they use to manage s106 contributions
- The increasing balance held in the s106 account. As of January 2016, the Council held in excess of £68.5 million in its s106 account. This is set against the £49.9 million as of October 2013. This figure is due to increase further as a result of the scale of development in the Borough. Of this amount, as of January 2016£13.4million has been ring-fenced or allocated to a project.

Recognising that the new governance and decision making structure was approved by Cabinet in January 2016,, this report sets out our review of existing arrangements and in so doing provides commentary on the areas of good practice that can be adopted under the new system.

Our approach

Our approach

The role of s106 policy in meeting the Council's objectives

Section 106 agreements (s106) are legally binding obligations between the local planning authority and developers under the Town and Country Planning Act 1990 to ensure developers make a reasonable cash or in kind contribution to local physical and social infrastructure.

The Council's approach to s106 is set out in its Planning Obligations Supplementary Planning Document (SPD) (2012) and is designed to meet the relevant objectives of the Core Strategy 2010, IDF and other relevant strategies to support the significant increase in population and employment over the next 15 years. For instance, by 2025 it is projected there will 43,275 more homes in the borough (equating to 2,885 per year).

Under the Council's existing s106 programme, s106 monies are paid at key stages of development ('trigger points') in accordance with the relevant terms of a particular obligation, to fund projects across a range of themes (e.g. affordable housing, education, community and leisure facilities, employment and enterprise, health, sustainable transport, environmental sustainability, and public realm and open spaces).

Methodology

This report summarises the findings from Grant Thornton's review of the s106 PMP within London Borough of Tower Hamlets. This review was conducted throughout February 2016. The methodology that we have used includes:

- a comprehensive desktop analysis of documents provided by the Council.
- financial testing of a sample of 10 planning applications (PAs). The sample of PAs was random and was selected using IDEA (random generator) software. This sample contained PAs that had funded already completed projects, projects that were still live, projects that had been identified but not formally authorised and therefore yet to spend, and finally contributions that had not be allocated to specific projects. Testing on PAs included:
  - verifying that Project Initiation Documents (PIDs) were allocated the funding specified in the PAs
  - ensuring that the correct Heads of Terms (HofTs) were applied to PIDs and s106 monitoring spread sheets
  - testing the dates at which income was received and expenditure authorised to determine if teeming and lading occurs within the programme
  - testing the accuracy of income and expenditure information against the s106 programme's monitoring spread sheets
- Stakeholder interviews with Council officers. A list of the officers and their positions within the Council can be found at Appendix 1.
- Telephone interviews with s106 and finance officers from other London Boroughs in order to provide context and benchmarking information against which to analyse our findings. As agreed with the Council, we will not provide the names of those Councils in this report.

Our approach (continued)

Our report will provide:

An independent view to management considering whether the controls you have in place for dealing with s106 planning obligations are robust, transparent, sound, and secure to achieve the objectives of the Council.

In so doing the review has focussed on the following areas:

- The council's current processes in place regarding the accurate recording of s106 income and expenditure.
- The council's current processes in relation to the ring-fencing and programming of s106 contributions to ensure teaming and lading does not occur.
- The council's current governance and decision making structures in relation to the management of s106 contributions, particularly with regard to processes around any variations to s106 agreements in terms of what money can be expended on.
- The suitability of the council's current monitoring and reporting in relation to s106 contributions to ensure monies are spent in accordance with s106 agreements and within the required timelines.
- The management of financial, reputational and operational risks within the s106 programme.

As we set out in our methodology, to inform our recommendations we have engaged with other London Boroughs. We have benchmarked our findings against some aspects of those Councils' arrangements and have set out how the Council's arrangements compare with its peers. These insights can be found within the detailed findings section of this report at Appendix 2.

We have set out concise summary findings relating to each aspect of the scope on **pages 16 to 19.**

Glossary of acronyms used in the report

Acronym	Full name
PMP	Programme Management Processes
PCOP	Planning Contributions Overview Panel
IDF	Infrastructure Delivery Framework
RCDA	Register of Corporate Director's Actions
IDSG	Infrastructure Delivery Steering Group
PID	Project Initiation Document
HofT	Head of Terms
D&R	Development & Renewal Directorate
CLC	Communities, Localities & Culture Directorate
PO Officer	Planning Obligations Officer
PA	Planning Application
SPD	Supplementary Planning Document
TORs	Terms of Reference

Summary Findings

Summary Findings

Income and expenditure processes

Summary: The effective liaison between the s106 programme manager within Development & Renewal (D&R), programme leads in other directorates and finance teams, ensures that the income and expenditure of s106 contributions is accurately recorded and up-to-date information in shared throughout the Council as required.

Despite this, the processes by which income and expenditure are recorded are labour-intensive and susceptible to the risk of inaccurate recording. This is borne out by our financial testing of PAs that revealed a minor discrepancy of £106 in the recording of the income received for one of the PAs we tested. As this expenditure occurred in this financial year, the Council is confident this would have been identified in the end-of-year reconciliation of s106 expenditure.

In order to accurately record expenditure and income officers must monitor, update, validate and share a number of spread sheets. As such the accuracy of recording is dependant on the individual rigour and attention to detail of key officers. The Council recognise this and set out the programme's risks in its 2015 risk assessment of the s106 programme.

As a result we have recommended that the Council fully consider investing in software that will dock with both their Agresso and Accolaid software systems and enable accurate recording of income and expenditure.

The Council's inability to allocate project expenditure to individual s106 contributions within each financial year (due to the annual reconciliation of capital expenditure) can prevent directorate programme managers from accurately planning funding for future capital projects. Whilst inconvenient for project and programme managers, this problem is mitigated by accurately profiling capital expenditure to allow managers to plan future project funding more effectively. In addition, all end-of-year reconciliation of expenditure should continue to be managed alongside the s106 programme manager and departmental s106 programme leads. It should be noted that other councils with which we consulted manage capital expenditure in a similar way.

From our conversations with other London Boroughs, we have found that other Councils also monitor and record income and expenditure using similar processes, i.e. using locally-held spread sheets which are shared periodically (or with Sharepoint) with other Directorates and reconciled with the financial system on a monthly basis. That being said, other Councils also expressed interest in specialist s106/CIL software.

Summary Findings

Ring-fencing and programming of s106 contributions

Summary: The Council has a robust system in place to ensure that s106 contributions are programmed and ring-fenced onto appropriate projects. The process is collaborative and encourages directorates to use s106 contributions as early as possible.

The participation of planning lawyers in the programming and PID development process is an identified strength. This practice has not been universally adopted in other Councils where the first exposure Legal Services has to s106 allocation is at the approval stage by the overview panel.

Preventing 'Teaming and Lading': The 2015/16 audit findings report produced by the Council's external auditors highlighted an example of teaming and lading at the Council. In this instance the Council forward-funded an s106-funded project using the General Fund whilst waiting for the appropriate s106 income to be received. Moving forward the Council recognises that it needs to have a clear audit trail in place and that such procedures are appropriately governed.

As part of our financial testing we undertook to determine whether the date at which s106 income was received always occurred prior to the date at which expenditure was authorised. Our testing has been unable to determine this as the Council cannot provide proof on the date at which income was received from developers. This is because the Council changed its finance system in 2013 and any income received prior to this is no longer available. The sample of PAs randomly selected for this study all received their income before 2013.

The Council is clear that it does not 'team or lade' using unallocated or inappropriate s106 contributions on the basis it conducts checks to ensure this does not occur. Should these checks reveal that funds from the chosen s106 have either yet to be transferred by the developer, are insufficient, or have been allocated elsewhere then a PID will not be submitted for approval and an alternative s106 contribution must be sought for funding.

Delays to commissioning: We have found that despite ring-fencing and programming activities by the s106 programme team, the Council's s106 account balance has recently increased. Further increases are anticipated. The Council is struggling to commission projects and authorise project expenditure at a pace sufficient to meet the rate at which income it receives into the account. This reflects the scale of development currently on-going in the Borough.

We have found a number of contributing factors to this. These include the Capital Estimate and Register of Corporate Director's Actions (RCDA) approval processes followed by the Council, both of which we have found could be streamlined with the s106 approval processes to allow faster authorisation of project expenditure. In addition more rigorous enforcement of the Council's procurement policy in recent years and insufficient officer project manager resource are contributing factors. These delays to commissioning are contributing to the number of s106 contributions that are being programmed to projects within 18 months of their expiry date.

Summary Findings

Governance and decision making structures

Summary: The Council has well-established governance and decision making structures and processes. These are led by the s106 programme manager and the PCOP and supported by key personnel in each directorate.

The level of documentation and guidance that sets out the governance arrangements of the s106 programme is significant and the quality is generally high. PCOP has detailed terms of reference and there are clear divisions of responsibility between the various members of the panel. The process maps and project-level templates are thorough and help ensure a consistent approach to judgement and allocation of contributions.

The Council's decision making structures and governance arrangements are similar to those of the other London Boroughs with which we consulted. Those councils also have a cross-directorate officer-led board as the primary decision-making body allocating s106 contributions to projects.

Aligning s106 governance and decision making processes to the Council's other capital related approval provides an opportunity to streamline governance. The requirement for officers to gain approval to commission the project and receive s106 funding via separate processes (i.e. two sets of approval) was identified as an area that could be further investigated. This challenge is not peculiar to the Council however and we understand from our benchmarking that aligning s106 funding allocation with the Council's capital expenditure approval process is a challenge elsewhere. This challenge is perhaps most stark in those directorates where s106 funding is just one of many sources of funding.

Transparency : The level of transparency demonstrated by the Council (under existing arrangements) compares favourably to that shown by other Councils we have approached during this review. Letters to developers confirming discharge of obligation (though not always issued), the publishing of PCOP allocations online and the bi-annual s106 newsletter all provide accountability to the public. The Council's move to the IDF, providing the Mayor in Cabinet with the decision making responsibilities for larger s106 funded projects – further strengthens the Council's transparency credentials.

Whilst the s106 programme demonstrates its transparency to the public, anecdotal evidence has indicated that the programme team could do more to highlight and disseminate the funding allocations taken by PCOP internally within the Council.

Summary Findings

Monitoring and reporting of s106 contributions

Summary: The Council's s106 programme produces both standing and exception reports that are delivered to PCOP in order to facilitate monitoring. These reports are generally of a high standard but we have recommended they be further integrated.

Those time-limited contributions close to expiring remain a key risk for the Council. This is evidenced by the testing we conducted. Of the ten PAs tested we found two of the s106 contributions were only programmed into projects within months of their expiry date.

Time-limited contributions are monitored and the Finance sub-committee drives action to ensure at-risk contributions are allocated and projects commissioned prior to expiry. Whilst the Council has been successful to date, as the s106 balance increases, the challenge of managing this risk presents will rise accordingly. We understand that the Council is mindful of this risk.

Responsibility to ensure projects spend in accordance with their PIDs rests with project managers and their directorates. As a control measure, Corporate Finance and s106 programme manager review a sample of project invoices at year-end prior to crediting service budgets with the relevant s106 contribution. This review focusses on ensuring that that projects have spent in accordance with their PID. PCOP's responsibilities for project monitoring focus on the approval and closure of projects. Information is collated for the s106 programme manager so that PCOP can maintain oversight.

The Infrastructure Planning Team produce monitoring reports that cover the delivery of non-financial contributions. Anecdotal evidence has revealed that these are considered at PCOP meetings, however they do not feature on the PCOP agendas or minutes we reviewed.

Monitoring and reporting of risk

The Council's s106 programme has a mature attitude to the risks it faces. It has identified both programme and project risks and the actions and control measures to mitigate them.

Programme risk – The Council has conducted a risk assessment of the Planning Obligations Collection System. This was developed in August 2015 with a view to highlighting the risks and attached to current processes and how they would be mitigated by a new system. This sets out eleven operational risks to which the current programme management processes of s106 are subject to, it provides details on the consequences of these risks and the control measures required to mitigate them. The management of s106 related risk is also contained within the D&R Resources Service Plan.

The s106 programme has taken active steps to mitigate its risks. Most notably, the quality and quantity of documentation relating to governance and the key processes that have mapped out have reduced the Council's reliance on the corporate knowledge on key officers and has ensured there is greater strength-in-depth in the organisation.

In addition, this approach to managing risk is evidenced by the s106 programme's willingness to commission and engage with this independent review.

Project risk - Risk is also identified at the project level. Each PID contains a risk register setting out its risks, their triggers, existing internal control measures and a risk score comprising likelihood and impact. The sample of PIDs reviewed in the course of this review demonstrates that risks are assessed on a case by case basis. Whilst some risks are common between some PIDs, it is clear that risk descriptions have been tailored to reflect the specific nature of the risk to that project.

Appendix 1: Detailed Findings

Recording s106 income and expenditure

How income is monitored and recorded at the Council

The Development & Renewal (D&R) (Resources) Planning Obligations (PO) Officer manages a schedule of s106 payments due from developers. These payments are based on the "trigger points" or project milestones at which developers pay the contributions.

Each directorate has a designated s106 Programme Lead Officer who is updated on the new contributions arriving in the account.

Should payment not be received the PO Officer liaises with the relevant programme lead to determine whether the trigger point has been reached before contacting the developer to prompt payment if required. In our conversations with other Councils we have found that a similar approach is taken elsewhere.

S106 income arrives at the Council by cheque or BACS payment. Cheques are sent to the PO Officer, who takes them to the Operational Team within Corporate Finance. BACS payments are processed directly into the suspense account by the Financial Systems Income team which notifies the Operational Team.

The Financial Systems Income Team transfers S106 income payments from the suspense account to the relevant s106 PA HofT on the Ledger on a monthly basis.

Historical delays in moving income from the suspense account following receipt of s106 contributions have improved as a result of the monthly reconciliation process between the PO Officer and the D&R Finance officer. These were instituted in response to recommendation of the Council's August 2013 Internal Audit report.

The reconciliation between the Operational Finance team, PO Officer and 106 Programme Manager ensures that monthly income status reports from the financial system tally with the Master Spread sheet maintained by the PO Officer. This reconciliation process mitigates the financial risk posed by not managing s106 income within the debtors system.

Both income and expenditure are recorded and monitored on the s106 Programme's master spread sheet. This spread sheet sets out:

- the income expected from each PA, that which has been received and that still expected from developers.
- which contributions are still available for allocation, those which are ring-fenced to schemes, and the balance that has been assigned to projects or PIDs in various stages of development and implementation.
- expenditure for each financial year and the balance remaining for expenditure and allocation.

Insights from other London Boroughs – A similar process, requiring frequent reconciliation between s106 officers and finance is in operation in other London Boroughs and the Council can take a small degree of assurance from this. Those councils also recognise that there may be improved ways of working that use bespoke programme management and financial software, however, their current arrangements also rely on Excel spread sheets and effective communication between different departments in the Councils. One Council has recently procured specialist software (Exacom) with which to manage their s106 and CIL receipts.

Recording s106 income and expenditure

How income is monitored and recorded at the Council(continued)

One finding within the Council's external auditor's final report of 2014/15 centred on the accuracy of recording of income and expenditure and in particular the suitability of a locally held Excel spread sheet as the primary monitoring tool of income and expenditure. These concerns are well founded, maintaining accurate records using spread sheets is labour intensive and increases the risk that contributions will be recorded or monitored inaccurately. Findings relating to the suitability of the 106 Programme's Excel spread sheet included:

- the spread sheet did not cast and certain items appear not to have been paid strictly in line with the original agreements; This is explained by the addition of interest and indexation on individual payments. However, the spread sheet is not setup to provide this information
- Excel does not allow effective version control or an audit trail in its monitoring of corrections and changes.

Our testing of the sample of PAs identified one discrepancy totalling £106 relating to the income received for one s106 contribution. Although this amount is small in comparison to the total s106 contribution, this demonstrates that the processes used are susceptible to inaccurate recording. It should be noted that this inaccuracy occurred in 2015/16 and the Council is clear that this would be have been identified in the annual end-of-year reconciliation.

Excel spread sheets are not the most suitable tools for managing complex programmes. Council officers are clear in that they consider the current system to be labour intensive and there may be alternative ways of working to reduce the effort required to accurately record income whilst ensuring the accuracy of recording.

The Council has already identified in their Planning Obligations Collection system risk assessment, the recording and validation of income requires significant manual and administrative officer input to ensure accuracy.

Under the current system income and expenditure spend are also documented on Agresso, a planning spread sheet (to match income to PA/HofT re: planning agreements) and also on a Programme Management spread sheet (to facilitate the programming of spend into projects). Data accuracy is subject to the risk of human error. This risk means that the various reconciliation exercises undertaken by the Council are necessary to ensure accuracy.

The Council has recognised that improved IT software, if integrated with Accolaid and Agresso would reduce the level of duplication and allow income to be pre-populated before being programmed. It would further reduce the risk of inaccurate recording, provide a more robust audit trail of changes and reduce the reliance on one or two key officers – without whose corporate understanding of the system, the programme would be at risk.

RECOMMENDATION 1: The Council should consider procuring integrated s106 / CIL Software. . This information system should allow both income, expenditure and programming information to be co-located and should integrate the processes by which s106 and CIL are allocated, monitored and implemented across the Council.

Recording s106 income and expenditure

How expenditure is monitored and recorded at the Council.

Departmental programme leads monitor project spend alongside their project managers on an on-going basis. Programme leads then provide the s106 programme manager with an update on project spend for their s106 projects, based on the reconciliation exercise they have conducted with the capital finance report, on project expenditure in the period.

Projects within Public Health & Education are subsumed within D&R department reports due to the small number of Public Health Education and Education projects being delivered. These spread sheets are synthesised into a report that provides an overview of project spend for every live project with allocated s106. These reports are presented to PCOP on a quarterly basis.

Monitoring is validated and reconciled with the Council's quarterly capital expenditure monitoring reports which are able to allocate expenditure to individual project codes.

This validation is a manual process that can be achieved alongside Corporate Finance or using the VLOOKUP function within Microsoft Excel to track the expenditure against individual project cost codes. This process can be labour intensive if a directorate has a large number of live projects.

Accurate validation of the recording and monitoring of project expenditure relies on project managers allocating expenditure to the correct project cost-code when raising invoices. Anecdotal evidence has shown that project managers infrequently use incorrect cost-codes. Should the incorrect project cost-code be used then the s106 programme is reliant on the reconciliation exercises with corporate finance, alongside other department's budget monitoring activities to identify inaccurate expenditure recording.

Following the quarterly reconciliation with Capital Expenditure reports, the s106 Programme Manager updates the Master "Planning Application Status" spread sheet. This spread sheet captures the spend for PAs and the level of funds remaining with each PA. The reconciliation at this stage is indicative only and as set out above the s106 programme manager must wait until the end of the financial year to reconcile expenditure of individual contributions with the Council's financial system.

Recording s106 income and expenditure

How expenditure is monitored and recorded at the Council (continued)

S106 quarterly monitoring reports cannot indicate which s106 contribution, (or alternative funding sources) was used to fund each element of project spend. This reconciliation occurs annually at year-end in collaboration with the S106 Programme Manager and directorate programme leads. As such, programme leads cannot determine how much funding remains in each of the funding sources used.

This is potentially problematic in larger, long-term projects where s106 contributions and CIL are only two of a range of funding sources for capital expenditure. As a result of this directorates may not know how much funding they have remaining in the s106 contributions allocated to their HofT at any point within year. This may impact on long-term planning, slow commissioning times and increase the financial risk to the Council of s106 contributions expiring before they are spent. Whilst the Council has a large s106 balance, and directorates have a number of PAs from which to plan future project funding, this problem may not present. However, once the s106 balance and the number of available PAs reduces, it will be important for the Council to profile the use of funds from each PA accurately and to conduct the end of year draw down in a collaborative manner.

For smaller projects – or projects funded solely from one s106 contributions this is less problematic as the S106 Programme Manager and directorate programme leads can manually reconcile individual project spend, as provided by the capital monitoring report, with their own spread sheets in order to attribute project spend to funding sources. However, this monitoring is conducted outside the Council's Agresso finance system and the expenditure from individual s106 contributions cannot be ascertained with certainty until the accounts are drawn-down at the year-end reconciliation.

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Ring-fencing and programming s106 contributions.

Background

The process by which the Council calculates the S106 contribution for each PA is set out in the S106 Planning Obligations Supplementary Planning Document (SPD). This was adopted by the Council in 2012. This guidance explains how each S106 Contribution is calculated using a funding formula and how each S106 contribution is assigned to HofTs. The HofT to which an S106 is assigned is mandated by the nature of the development contained in the PA. Following assignment to a HofT each S106 contribution is ring-fenced and the funds attached to each contribution can only be used by the directorate responsible for that HofT on projects that are focussed on delivering the outcomes attached to that HofT.

Supporting narrative detailing more specific conditions for the use of each s106 contribution are included in each s106 agreement. This narrative description and the HofTs that they support are agreed through a negotiation between the developer and both Planning and Legal Services at the Council. We heard that the wording chosen aims to provide the Council with some flexibility in the way that they use the s106 contribution whilst adhering to the letter and the spirit of the s106 agreement.

Programming s106 contributions

The s106 Programme Manager maintains a spread sheet that details the funds available in the S106 account. This can be analysed by HofT or by PA. Sections of this spread sheet are shared with the Programme leads responsible for managing s106 contributions assigned to their HofTs in each directorate.

When a project is identified and an officer appointed as project manager (PM) to deliver it, that PM is responsible for compiling a Project Initiation Document (PID). The purpose of the PID is to provide a description of the project and what it will achieve (specific and measurable objectives). The PID also sets out the relevant clauses contained in the S106 agreement(s) that justify their expenditure on that project.

The directorate s106 programme lead and s106 programme manager allocate the funding to each project, ensuring tat they use funding from PAs who s106 contribution is allocated to their HofT and that the desired outcomes of the project are aligned to further provisions set out in the s106 agreement. In allocating s106 contributions to projects, s106 contributions that are closest to expiring are prioritised.

Anecdotal evidence has revealed that s106 agreements have become more flexible as the Council has sought to engage with developers in a collaborative manner. Whereas historically, s106 agreements were perceived as inflexible, the planning department now engages with developers and negotiates the agreement with them to build in more flexibility on how the contribution can be spent.

Ring-fencing and programming s106 contributions.

Programming s106 contributions (continued)

Following the allocation of s106 contributions to PIDs and their verification by directorate programme leads and the council-wide s106 programme manager, the PID is submitted to a Planning Lawyer within Legal Services to provide commentary and an independent opinion on the suitability of the s106s contributions allocated to the PID.

Based on this opinion, and following further advice from the s106 Programme Manager the PID can then be submitted to PCOP or returned to the project manager for reconsideration. We heard of instances where, having been unsure of the suitability of an s106 contribution, the PO Officer has consulted with the developer to obtain their consent for its use on a project. This consent having been provided in writing; the PID could proceed to PCOP.

We have found the quality of the information and level of project and programme governance contained in PIDs to be sufficient for their purpose. The PIDs follow a recognised template, based on PRINCE2 methodology. They are consistently thorough and the quality and detail of the information provide in each PID reflects what is required for the large scale of some of the capital projects being commissioned. We noted a marked improvement in the quality of the PIDs from 2013 to present.

Teaming and Lading

The Council's most recent External Audit report found "the re were instances where payments were made in advance of receiving s106 monies, temporarily utilizing other s106 funds." We conducted testing on a sampling of PA at the Council.

The report highlighted the reputational and legal risk of using inappropriate s106 contributions to forward-fund projects whilst waiting for the allocated s106 income to be received from the developer. The Council is cognisant of this risk and has control measures in place to ensure it does not 'team and lade' s106 income.

This control measure involves programme leads verifying that the s106 funds to be used have been received and are in the Council's s106 account, are sufficient for the project and have not been allocated elsewhere. We heard that should any of these checks reveal the funds from the chosen s106 have either yet to be transferred by the developer, are insufficient or have been allocated elsewhere then a PID will not be submitted for approval. These checks help ensure that teaming and lading does not occur.

RECOMMENDATION 2: In the future, should the Council use the General Fund to forward-fund projects whilst waiting for conformed s106 income to be received, there should be a clear audit trail which records the decision and transaction. Such audit trail should specify that the funds used are from the Council's General Fund or reserves and not from another s106 contribution.

As part of our financial testing we undertook to determine whether the date at which s106 income was received always occurred prior to the date at which expenditure was authorised. Our testing has been unable to determine this as the Council can not provide proof on the date at which income was received from developers. This is because the Council changed its finance system in 2013 and any income received prior to this is no longer available. The sample of PAs randomly selected for this study all received their income before 2013.

Ring-fencing and programming s106 contributions.

Delays in commissioning

We have found that the process by which the Council approves capital expenditure is contributing to delays in the time it takes for projects to be commissioned and project expenditure fully authorised. These delays do not reflect inefficiencies within s106 programme processes. These delays can be common to all capital projects, regardless of the funding source. Some contributing factors for these delays are set out below:

The Council's capital estimate process requires an additional level of Member approval for capital projects. Following Member approval of the Capital Programme in its entirety at the start of the financial year, the Council adopts the capital estimate process for all subsequent capital projects it approves. This includes those funded by s106 contributions. The lead time for a report to be issued to Council can be in excess of 4 months – this can lead to a significant delay in approving expenditure that has been approved as part of the Capital programme.

RECOMMENDATION 3: When implementing the IDF the Council should consider the requirement to adopt the capital estimate process to gain Cabinet approval for Capital expenditure previously approved as part of the Capital Programme or subsequently as an amendment to the Capital Programme.

This is possible whilst maintaining an appropriate level of governance and transparency. This will require the appetite to work differently and embrace change. One solution provided by a stakeholder set out that at the point where those PIDs whose value is below the delegated threshold are presented to IDSG and go to Cabinet for noting – they should approve the capital estimate at the noting. Where above the threshold they should approve the PID's, allocation and the capital estimate at the same time to make the process a lot quicker.

The RCDA system contributes to delays. If the value of capital investment is below £250,000 a report is provided to Cabinet for noting and the expenditure approved by a Corporate Director via the RCDA process. This process requires comments and signatures from Council officers in different departments prior to authorisation from a Corporate Director. We have heard of occasions where thus has led to delays to project start.

RECOMMENDATION 4: When implementing the IDF the Council should review the RCDA procedure and investigate whether a more stream-lined process which enables more rapid delegated funding approval will still achieve the same results without sacrificing the quality of oversight and accountability.

Insights from other London Boroughs - We heard from one Council that was confident that it was effectively managing its s106 budget by promptly and efficiently programming s106 funds and commissioning new projects. We heard how their oversight board only accepts proposals that are in that year's capital programme or form part of the wider Infrastructure Delivery Plan for that year, In this way the Council was able to commence projects immediately without requiring further Member approval for Capital Expenditure. An additional advantage was that it forced Service managers and Directors to plan ahead strategically and schedule their capital projects for the next year.

Ring-fencing and programming s106 contributions.

The increasing s106 balance

The Council is not able to commission projects quickly enough to maintain pace with increasing s106 and CIL receipts. The Council needs to consider ways in which it can facilitate faster commissioning whilst maintaining accountability for project spend in order to help mitigate the financial risk that s106 agreements will expire before the projects to which they are allocated go live. In addition, prompt use of s106 monies will improve developer and public perception of the Council's management of s106.

We recognise that there are other contributing factors to the increasing s106 account and these are set out below. These factors have placed the Council in an almost unique situation.

- The Council receives a high allocation of funds from the New Homes Bonus as well as having very high business rates receipts. These sources of funding have meant that s106 contributions have not been used where they might have been at other local authorities
- the perceived previous difficulties in political decision making in relation to commissioning large-scale capital projects
- the reduction of officer/project manager resource in some directorates
- the lag-time caused by the inefficiencies in the capital approval processes as set out above and
- more rigorous enforcement of compliance with EU Procurement policy at the Council have all helped contribute to the Council having an increasing balance in its s106 account.

It is important that the Council recognises the challenges that these circumstances present and find ways to ensure strategic commissioning of capital projects can be taken forward in an efficient manner.

RECOMMENDATION 5: The Council should build flexible capacity, with commissioning expertise, within the s106 programme team and directorates in order to maintain pace with the Capital Programme. This capacity building could be through training, or increasing its officer resources, or through considering alternative methods of commissioning.

Insights from other London Boroughs – One council we spoke to recognised that not having enough project management resource to commission projects at a sufficient pace was a key challenge. This council looks to spread its match-funding as widely as possible across its portfolio and pay for additional project management expertise to deliver s106 funded projects.

Governance and decision making structures in relation to the management of s106 contributions.

Planning Contributions Overview Panel (PCOP)

PCOP is the Council's accountable decision making body that has responsibility for governing the allocation of s106 contributions. The PCOP meets every six weeks and is responsible for approving Section 106 delivery, monitoring progress of the delivery of S106 projects and programmes, ensuring the accountability and transparency of the Planning Obligations process for developers, elected Members and the wider public. PCOP has established Terms of Reference (ToRs). These were updated in 2015 and updates capture the changes that were recommended following the Internal Audit report of 2013.

PCOP is well supported by the Finance sub-committee. The sub-committee meets two weeks before PCOP and facilitates effective PCOP meetings and the PID approval process.

The composition of PCOP panel changed following a recommendation of the Internal Audit report of 2013. The recommendation set out that those with PCOP governance responsibilities should be separate from those who plan, manage and deliver s106 planning obligations. This change is reflected in the composition of the panel required to form a quorum at PCOP.

PCOP remains an officer-led board. Supporting text has been included to support this change in paragraph 5.9 of the TORs. This paragraph is misleading, and sets out that; " S106 officers are independent from officers who plan, manage and deliver Section 106 planning obligations." This is unclear as s106 officers who manage the programme. It doesn't accurately capture divisions in responsibility, missing the point that those with governance responsibilities should be separate from those who plan, manage and deliver s106 contributions, not the s106 officers themselves.

RECOMMENDATION 6 – When the Terms of Reference for the Infrastructure Delivery Steering Group are fully developed they should clarify the distinction between those charged with governance and those with responsibility for delivering the programme.

Anecdotal evidence and the quality of PIDs demonstrates that PCOP is rigorous in ensuring the s106 contributions allocated to PIDs are appropriate. This quality control is a key action to mitigate both legal and reputational risks attached to the s106 programme.

The panel has similarly demonstrated that it is stringent in its consideration of change notices and additional funds being allocated to existing projects. This is evidenced by the December 2015 submission of the Bromley-on-Bow redevelopment PID, requesting an additional £75,000 of suitable funding be allocated to the project in addition to the £9,000,000 already allocated as well as the use of change notes to govern the process by which s106 contributions are re-allocated to different projects.

Governance and decision making structures in relation to the management of s106 contributions.

Planning Contributions Overview Panel (PCOP) (continued)

One of the strengths identified in the 2013 Internal Audit report was PCOP's flexibility in managing its portfolio. In particular by accruing similar HofTs together for bulk delivery rather than on an agreement–by-agreement basis. The Council does this already by grouping together a number of small projects in "Foot way carriage way" (FWCW) & Cycling & pedestrian Improvement Schemes. This pragmatic and proportional approach to governance should be taken forward with the IDF.

RECOMMENDATION 7 - In order to aid commissioning the Council might consider grouping small projects together into programme-level PIDs for approval and monitoring purposes. Any such grouping must be proportional to project size and there must be a clear link between individual s106 contributions and the projects they are funding. This would ease the burden on those charged with governance whilst maintaining an effective audit trail and accountability.

Insights from other London Boroughs - One council's106 overview panel only authorises the allocation of s106 contributions to projects on the proviso that project spending starts within twelve months of approval. Therefore if the project team does not use its funds and start the project within one year they have to reapply for authorisation. This is used as incentive to ensure that projects are delivered to schedule.

PCOP has a range of standing agenda items that enable effective oversight. This provides structure and allows the panel to identify trends in the portfolio and consistently consider and approve PIDs. In addition to the standing items on the agenda the board considers a range of other reports that are submitted. The content and suitability of these monitoring reports are considered more fully later in this report.

Governance and decision making structures in relation to the management of s106 contributions.

Transparency

Under current arrangements PCOP is an officer-led board and Members' involvement with s106 allocation is provided by the approval of the capital programme (and subsequently) with the Capital Estimate Process. This may have contributed to anecdotal evidence that some Members have felt that funding allocation decisions are made 'behind closed doors' and that transparency and accountability to the public could be further improved. This is reflected in the design of the IDF.

Under the IDF, funding decisions that have hitherto been taken by PCOP will, above a certain threshold, from April 2016 be made by the Mayor in Council in a public forum. This decision aligns with the Mayor's Transparency Framework and is designed to make the allocation of s106 funding more transparent. The Council recognises the requirement for transparency in its management of s106 contributions. The Council's S106 programme has adopted a number of measures in order to improve its transparency and accountability to the public. These are set out below.

Insights from other London Boroughs - Other councils with which have engaged have retained officer-led boards as the key decision making body. Member involvement is maintained through strategic oversight of the Capital Programme. The Council is the only organisation consulted in this review, where members will be responsible for the allocation of s106 contributions (albeit above the yet to be determined threshold).

Receipt of income to developers - Letters or emails are sent to developers to provide them with receipt of payment and notification that they have discharged their s106 responsibility set out in their Planning Agreement. We heard that although this occurs on the majority of occasions – this only happens when D&R has the contact details of the developer. There have been occasions when receipt of payment and notice of discharge of obligations has not been provided.

RECOMMENDATION 8 –The Council should consider receipting income and notifying developers of discharge of obligation in every case as standard procedure. This will improve transparency and strengthen the income recording process.

Publishing decisions online - Following each six-weekly meeting of PCOP, decisions regarding the allocation of funding to Council projects are published online following the decision to approve funding. Our experience of s106 programmes in other London Boroughs has shown that this is not common place and whilst there are examples of other Councils that provide similar information to the public, this is not always the case.

Bi-annual Newsletters - The Council produces six-monthly Planning Obligations Newsletters that are published online for the public. These newsletters provide a summary on s106 obligations, what contributions are spent on, a look ahead at future projects in the pipeline and selection of more detailed case studies of active projects and the outcomes they are looking to achieve in the community. Again – we have seen examples elsewhere of a similar approach but not all Councils produce these newsletters.

Governance and decision making structures in relation to the management of s106 contributions.

Managing s106 variations

The Council recognises the importance of managing change and has established control measures to ensure change is governed and there is an audit trail to demonstrate accountability and transparency.

The Council uses 'Change notes' to manage variations within the s106 programme in the following ways:

- **When requesting additional s106 funding to an existing project** - Should additional budget be required project PM's liaise with the directorate programme lead and s106 programme manager to determine whether sufficient s106 funds are available within an appropriate PA. The project and programme manager will complete the Change note, providing detail on the change in circumstances and the reasons for additional funding and append it to the existing PID for approval by PCOP. Should a new PA be required in order to meet the demand for funds then Legal Services are again consulted to ensure that the proposed expenditure is in line with the conditions set out in the s106 contribution of the PA. Changes made to funding are monitored on the s106 programme manager's master spread sheet.
- **When deciding to allocate previously allocated funding to different projects –** S106 contributions already allocated to a project can be changed and allocated to a different project. They change can occur due to a change in scheduling of projects, delays to existing projects, to maximise use of contributions or other similar reasons. When this occurs a change note is used in a similar way to the above. This change note moved the allocation of those funds from the old project to the new project, accompanies he PID of the new project when presented to PCOP for approval. These changes are monitored on the s106 programme manager's master spread sheet.
- **Gaining developers' consent to use s106 contributions differently –** Where the Council is unsure whether an s106 contribution can be used on a project, where possible it approaches the developer to gain written consent on the use of the s106 contribution for that project. This written consent supplements the legal justification for using the funds in the project and allows the Council to allocate funds more flexibly. This approach can be used when s106 contributions are nearing the expiration date.

Monitoring and reporting s106 contributions

Ensuring monies are spent in accordance with conditions and timelines

In this section we have set out the s106 related monitoring and reporting functions undertaken by the Council. Monitoring and reporting is led by the s106 Programme Manager and is focussed on ensuring that s106 contributions allocated to PIDs are being spent in accordance within tolerance for timeframe, scope and quality as set out in the PIDs. . This section will provide commentary on the suitability of the control measures and reports the Council has in place to ensure that projects funded by s106 contributions deliver their objectives.

Each programme lead is responsible for monitoring the performance of the s106-funded projects in their directorate as they are delivered. Each departmental programme lead is responsible for

- ensuring that s106 contributions ring-fenced to their HofT are allocated to projects,
- that those projects in their directorate to which s106 money have been allocated have a developed PID and proceed to PCOP, and
- ensuring that live projects remain active, spend their allocated s106 contribution within the scope of the arrangement and completed within the prearranged time frame.

The Council has published project management guidance (based on the PRINCE2 methodology). All project managers are responsible for delivering their projects in line with this guidance and the PID. The control measure to ensure s106 contributions are spent in accordance with the PID is the control exercised by Corporate Finance prior to the release of funds at project closure. Corporate Finance do not release s106 funds to project managers unless expenditure (as proven by invoices) is in line with what is set out in the PIDs. As such should expenditure not be aligned to PIDs then the Service Budget is used to finance expenditure. This eradicates the legal risk of in appropriate use of s106 funds and incentives Service Managers to ensure projects are delivered within tolerances.

The s106 Programme Manager is responsible for managing, collating and reporting the s106 monitoring activities across the departments. The s106 Programme Manager maintains a spread sheet containing information relating to all live projects. He liaises with each programme lead in each directorate to collate and quality –assure the information and help identify those projects that may stall, are at risk of stalling, or are at risk of using their s106 funding outside the scope of the original s106 agreement (due to some form of project change).

Monitoring and reporting s106 contributions

Standing monitoring reports to PCOP

S106 monitoring at the council is driven by the six-weekly meetings of the PCOP. There is a standing agenda at PCOP meetings and papers are provided to the panel in advance of the meeting. The primary report provided the Council consists of the s106 portfolio summary report. This sets out:

- the balance of the s106 account including the proportion allocated to each HofT
- analysis of the balance – setting out the value within each HofT that is yet to be programmed to a scheme that is ring-fenced., allocated to a PID or allocated to a live project currently being delivered.
- a forecast of current s106 income based on the Council's understanding of the upcoming trigger points.
- a comparison of the amount of funds available in comparison with 2 years previously. This sets out the variance from that position and highlights the increasing or decreasing trend in HofT balance. This helps identify those directorates which may need to increase their rate of commissioning.

Exception Reports to PCOP

These reports focus on providing an update to the panel on blockages in the identification, programming and spending of s106 contributes. These reports cover two types of delays, and are presented to PCOP on an approximate bi-annual basis, these are:

- projects for which section 106 contributions have been ring-fenced (for over 6 months) but have not yet come forward to PCOP in a PID. (i.e. delays in developing the PID); and,
- those projects with a lifetime budget of over £250,000 and where there have been minimal spend over the previous financial year

RECOMMENDATION 9 – It is recommended that the content of the s106 programme manager's bi-annual exception reports is integrated with the s106 Portfolio Summary Report and forms part of the standard report to the IDSG on a more regular basis. This will help actively manage the risk presented by time-sensitive contributions and ensure that the IDSG is proactive in driving corrective action by holding service managers to account for project slippage.

Insights from other London Boroughs - In discussion with other councils – we have heard that their s106 overview panel directly holds the service managers and/or directors to account for project slippage identified through monitoring. We heard this can be effective in helping to ensure project slippage is minimised and corrective action is driven from the top .

Monitoring and reporting s106 contributions

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Managing & reporting time-limited contributions

The expiration of time-limited contributions is a key risk to the Council, as highlighted in KPMG's audit findings report. The auditor's report set out that they had identified a number of s106 contributions that were due to expire .

The Council is aware of this risk and understand it may grow as s106 and CIL income increases. The s106 programme manager maintains a register on those contributions due to expire in the next 18 months. Similarly, it considers those projects that have yet to start that have funds allocated them that are due to expire in the next 18 months. This report is provided to the Council as a Gantt chart and is updated for every PCOP meeting. Whilst this report demonstrates that PCOP manage this risk, the report itself could be further developed to allow PCOP to easily assess the state of time limited contributions.

RECOMMENDATION 10 – The Council should further develop its report on time-limited contributions. A dashboard or traffic-light based report, setting out which time-limited contributions have been programmed and which have not, and similarly which projects funded by time-limited contributions have stalled would enable PCOP or IDSG to easily assess the risk they face and take prompt mitigating action.

Whilst the report evidences monitoring of time limited contributions, it is the active management of these contributions that will mitigate their risk. We heard the Finance Sub Committee does actively prioritise those s106 contributions with fewer than 18 months remaining. In doing so they look to allocate those that expire soonest and/or those with the highest value, and facilitate the productions of the PIDs in which they are allocated. We heard that to-date, the Council has been successful in ensuring all s106 contributions have been allocated to projects and have been spent.

Of the ten PAs tested as part of this review, we found that two contributions were programmed into projects within six months of expiry. This highlights the risk that time-limited contributions pose to the Council and how this risk may further develop should s106 and CIL receipts increase.

Monitoring and reporting s106 contributions

Other reporting

Although exception reports are only presented at PCOP bi-annually individual directorates monitor project progress through departmental governance boards. As such programme and project managers are held to account for project progress within their directorate, and whilst each directorate may not directly ensure that monies are spent in accordance with s106 agreements, they are focussed on ensuring that projects progress in accordance with agreed timelines.

Non-financial contributions - The August 2013 Internal Audit report identified the lack of monitoring of non-financial contributions as a financial risk. The report recommended that the PCOP agenda should include a regular item for monitoring and reporting of non-financial agreements. Following that review s106 officers established a monitoring framework across all council directorates to monitor live non-financial contributions and completed a review of the status of non-financial planning obligations in s106 agreements.

It is clear that significant progress has been made in implementing this framework. Non-financial contributions are now monitored and reported by the Infrastructure Planning Team's Planning Obligations Officer. Monitoring reports provide:

- an overview of new non-financial contribution
- an overview of the status of each HofT's non-financial planning contributions to ensure compliance with the s106 agreement

Whilst these quarterly monitoring reports are produced and some PCOP minutes record that these reports were reviewed, they are not on PCOP's Standing Agenda.

RECOMMENDATION 11 – In accordance with the August 2013 Internal Audit report's original recommendation, PCOP's agenda should include a regular item for monitoring and reporting non-financial agreements.

Project closure reports – Historically, benefits measurement and realisation has been a weakness of programme management in the local government sector. This is characterized by lack of rigour by programme and project managers in not enforcing governance around project closure . Project closure reports such as those produced by the Council demonstrate that its s106 programme manager exercises control over project closure processes and helps enable benefits measurement and realisation. Whilst we have not been able to ascertain whether project closure reports have been completed on all projects – those we have seen demonstrate that the Council considers project performance against tolerances, management of risks and crucially, lessons to be learned from each project.

Additional findings pertinent to this review

Whilst not included in the immediate scope of this study, our review of programme management processes has revealed additional findings that we feel should add value to this report. These are set out below for the Council's consideration.

Infrastructure or Capital Strategy

We have heard there may be a disconnect between the Council's capital strategy, the allocation of funding by directorates and the approval of s106 funding by PCOP. This is not a reflection on the s106 programme but is a wider issue – relating to the Council's infrastructure delivery plan and capital strategy. The extent to which capital commissioning is strategically considered and prioritised may need to be further considered in order to ensure the Council maximises the opportunity presented by the scale of s106 and CIL funds available. It has been identified that there may be a policy vacuum at the most senior level regardless of resources – a capital strategy and borough-wide Infrastructure Development Plan should be driving the expenditure of s106 (notwithstanding the constraints applied to allocation).

Capital Reporting

Challenge was given to the ease with which information can be extracted from capital monitoring reports. S106 contributions and CIL are only two funding mechanism for capital expenditure, and where managers have responsibility covering a number of funding sources they are having to conduct reconciliation exercises across a number of local spread sheets. This is inefficient and the Council's capital reporting should allow those with monitoring responsibilities to easily access the management information they require without conducting manual reconciliation exercises outside the finance system.

Accepting that it may not be possible to overhaul capital reporting within the current finance system – a more rigorous approach to profiling capital expenditure over the course of the year will improve the accuracy of capital monitoring and allow directorates to plan ahead with more certainty. Quarterly variations in capital expenditure in certain departments should be taken into account and profiled accordingly.

Unrealistic spending and commissioning targets by individual directorates are contributing to inaccurate expenditure profiles that do not reflect realistic or achievable capital expenditure. Accurate profiling will also mitigate the need for the kind of monitoring that allows programme managers to identify in-year spending within s106 contributions.

In addition to the findings set out above, a number of Council officers noted the four month time-lag between the issuing and finalising Capital expenditure monitoring reports. We heard that this is largely due to the process by which the Council chooses to review its financial monitoring information and the level of rigour and robust challenge this information is given by Department management teams, Corporate Finance and Corporate Management.

Appendix 2: List of stakeholders interviewed

Appendix 2: Stakeholder interviews

We would like to thank the Council's officers for making themselves available during the course of the review.

Name	Position
Aman Dalvi	(D&R) Corporate Director
Zena Cooke	(RES) Corporate Director
Barry Scarr	(RES) Head of Service - Finance & Procurement
Chris Holme	(D&R) Head of Service - Resources / Finance
David Williams	(D&R) Deputy Head of Service – Planning & Building Control
Dave Clark	(D&R) Programmes & Business Assurance Manager
Marcus Woody	(LPG) Senior Planning Lawyer
Matthew Pullen	(D&R) Infrastructure Planning Team Manager
Pat Watson	(CSF) - Head of Building Development (& s106 Programme Lead)
Tim Madelin	(AHWB) - Senior Public Health Strategist (& s106 Programme Lead)
Thorsten Dreyer	(CLC) Business Development Manager (s106 Programme Lead)
Helen Green	(D&R) Planning Obligations Officer
Danny Warren	(RES) Senior Accountant
Dilwar Hussain	(RES) Finance Officer

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Appendix 2

S106 Management Arrangements – Improvement Action Plan

Recording s106 Income and Expenditure					
Recommendation	**Finding**	**Action**	**Deadline**	**Owner**	**Progress**
1. The Council should consider procuring integrated s106 and CIL Software.	Despite effective recording of s106 contributions, Microsoft Excel may not be the most suitable tool monitoring tool for income and expenditure. It contributes to inaccuracy and is labour-intensive.	Scope the feasibility of integrated s106 system leading to the procurement of a s106 Database.	30/12/2016	Andy Simpson	A business case for the procurement of a planning data base had already been developed and approved prior to the review. A data base (Exacom) has recently been procured, although due to its interrelationship with both Finance and Planning ICT systems, testing of the database cannot commence until Agilysis have completed upgrades on Agresso and Acolaid.
Ring-fencing & Programming s106					
Recommendation	**Finding**	**Action**	**Deadline**	**Owner**	**Progress**
2. Should the Council forward-fund projects using the General Fund, an audit trail should specify that the money used is from the Council's General Fund or reserves	Due to the unavailability of historic income data (owing to changes in your finance system in 2013) testing on this issue was restricted to income received post-2013. We found no evidence of 'teaming and lading' since 2013.	Any request for capital funding will clearly set out what funding sources required, ensuring these are available prior approval. A clear audit trail will be kept on projects which are forward funded from reserves or contingencies.	30/09/2016	Chris Holme	Any executive reports requesting the use of s106 funding will continue to receive financial comment to ensure s106 resources are in place prior to approval. A clear audit trail will continue to be kept for any instances where reserves or contingencies are used to deliver forward funded projects, and a recommendation to this effect will be specified in the appropriate report.
3. The Council should consider the requirement to adopt the capital estimate process to gain Cabinet approval for Capital expenditure	Adopting the capital estimate process to gain approval for the prior-approved capital programme is delaying commissioning of projects.	Update financial regulations accordingly	30/07/2016	Zena Cooke / Chris Holme	Amendments to financial regulations have been drafted, within the parameters of constitutional delegation. Regulation FP3 amended to authorise officers to proceed with projects when there is budget provision

previously approved as part of the Capital Programme					and resources identified within the agreed capital programme. Supplementary capital budgets over £250,000 will require specific executive approval. Changes to financial regulations are delegated to the S151 officer.
Ring-fencing & Programming s106					
Recommendation	**Finding**	**Action**	**Deadline**	**Owner**	**Progress**
4. The Council should review the RCDA procedure and investigate whether a more streamlined process which enables more rapid delegated funding approval	The Register of Corporate Director's Actions (RCDA) process is contributing to delays to the commissioning of projects.	Scope the feasibility of revising the RCDA process, ensuring RCDA are only used where necessary and if expedient propose and implement a streamlined process for the the signature of RCDAs.	01/09/2016	Zena Cooke / Chris Holme	As part of the incoming Infrastrastructure Delivery Framework (IDF) an Infrastructure Delivery Board (IDB) has been established. The board will be chaired by the Mayor; and the arrangements will minimise the need for delegated decision-making by Corporate Directors In exceptional cases the board arrangements will facilitate a streamlined the RCDA process as it contains key officers charged with signatory powers.
5. The Council should build flexible capacity within the s106 programme team and directorates in order to maintain pace with the Capital Programme.	The Council's receipts from s106 and CIL are due to increase which may place a strain on programme support availability.	Additional capacity within the s106 programme needs to be explored and developed to increase the pace of delivery	30/10/2016	Chris Holme	Corporate Management Team will consider options for dealing with potential barriers to programme delivery, scoping the increase of officer resources, and alternative methods of delivery to expedite timely spend of s106 resources.

Appendix 2

S106 Management Arrangements – Improvement Action Plan

Governance & Decision Making					
Recommendation	**Finding**	**Action**	**Deadline**	**Owner**	**Progress**
6. The Infrastructure Delivery Steering Group (IDSG) should clarify the distinction between those charged with governance and those with responsibility for delivering the programme.	The Council will need to develop clear terms of reference for the IDSG	IDSG ToR to include distinction between those charged with governance and those with responsibility for delivering the programme.	30/07/2016	Matt Pullen	The ToR are currently being written for the IDB and IDSG. The distinction between those charged with governance and those with responsibility for delivering has been made.
7. The Council should consider grouping small projects together into programme level PIDs for approval and monitoring purposes.	The Council has a pragmatic and proportional approach to governance that should be taken forward with the IDF.	IDSG should continue to take a programme approach to relevant projects	30/06/2016	Andy Simpson	A programme approach is already in place with similar smaller scale projects being approved at PCOP / IDSG as a programme rather than individual projects.
Governance & Decision Making					
Recommendation	**Finding**	**Action**	**Deadline**	**Owner**	**Progress**
8. The Council should consider receipting income and notifying developers of discharge of obligation in every case as standard procedure.	There have been occasions when receipt of payment and notice of discharge of obligations has not been provided by the Council to a developer.	IDSG to further discuss receipting income and notifying developers of discharge of obligation in every case as standard procedure.	30/10/2016	Andy Simpson	This has been scheduled for discussion at the IDSG. While this will be considered, there is a strong case that this does not need to be implemented as the onus is upon developers to contact the council should they require confirmation of obligations discharged. Additionally, since developers can sell on sites as soon as planning permission has been granted, those making payment at development trigger points may not be the named developer on the s106 agreement, further complicating notification should responsibility rest with the Council.

Appendix 2

S106 Management Arrangements – Improvement Action Plan

Monitoring and Reporting					
Recommendation	**Finding**	**Action**	**Deadline**	**Owner**	**Progress**
9. Bi-annual exception reports to PCOP should be integrated with the s106 Portfolio Summary Report to form part of the standard report to the IDSG.	The Council provides bi-annual exception reports to project slippage to PCOP.	Commence reporting of project progress to IDSG bi annually	30/11/2016	Andy Simpson	A Progress report for the s106 programme is currently being developed for the June IDSG. This will be reported bi annually, outlining income, spend and the progress of s106 funded projects.
10. The Council should further develop its reporting on time-limited contributions.	The s106 programme team provides a high level report on time-limited contributions to PCOP.	IDSG to receive dashboard of time limited contribution updating on progress as a standing item of the IDSG agenda	30/11/2016	Andy Simpson	A traffic-light based report is being developed for the next IDSG setting out which time-limited contributions have been programmed and the individual expiry details of each contribution.
11. PCOP's agenda should include a regular item for monitoring and reporting non-financial agreements.	PCOP's standing agenda does not include the monitoring of non-financial contributions. (We understand from PCOP minutes that these reports are considered.)	IDSG to receive a bi annual monitoring report of non-financial obligations	30/11/2016	Matt Pullen	A monitoring report of non-financial obligations was presented at PCOP on 31/03/16. This will continue to be reported on a 6 monthly basis.

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