TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 31 January 2017 at 7.00 p.m.

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

This meeting is open to the public to attend.

Members:
Chair: Councillor Candida Ronald
Vice-Chair: Councillor Denise Jones

Councillor Sabina Akhtar, Councillor Andrew Cregan, Councillor Ohid Ahmed, Councillor Rabina Khan and Councillor Craig Aston

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

[The quorum for this body is 3 Members]

Contact for further enquiries:
Charles Yankiah, Democratic Services
1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, E14 2BG
Tel: 020 7364 5554
E-mail: charles.yankiah@towerhamlets.gov.uk
Web: http://www.towerhamlets.gov.uk/committee

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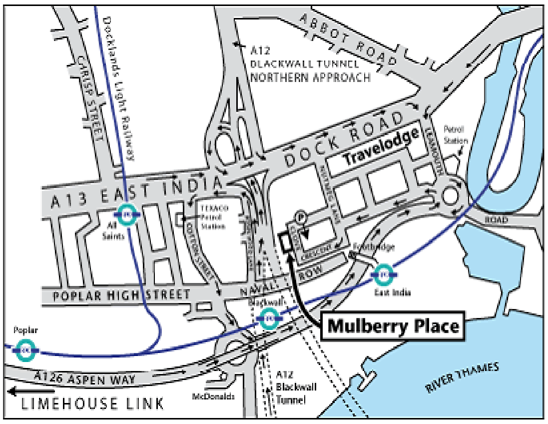

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PAGE NUMBER(S)

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST (Pages 1 - 4)

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

3. MINUTES OF THE PREVIOUS MEETING(S)

To confirm the minutes of the Audit Committee held on 8th November 2016.

4. KPMG ITEMS FOR CONSIDERATION

4 .1	**KPMG Audit Plan 2016/17**	5 - 30

5. TOWER HAMLETS ITEMS FOR CONSIDERATION

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6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Next Meeting of the Committee:
Tuesday, 21 March 2017 at 7.00 p.m. to be held in the Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

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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:-

Graham White, Acting Corporate Director, Governance and Interim Monitoring Officer - 020 7364 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** 31st January 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:** Unrestricted
KPMG External Audit Plan 2016/17	

Originating Officer(s)	Kevin Miles, Chief Accountant
Wards affected	All wards

Summary
This report presents KPMG's Audit Plan for 2016/17. KPMG's report outlines their audit approach and their areas of review including those they consider high risk.

KPMG's audit review covers providing an opinion on the financial statements for 2016/17. The 2016/17 financial statements will be tabled to Audit Committee later in the year. The auditors are due to provide an opinion on the financial statements by the end of September 2017. The auditors will also conduct a use of resources review as part of concluding if the council has achieved value for money. Following delays with the 2014/15 and 2015/16 audit, KPMG are anticipating the audit completion for 2016/17 by the statutory deadline.

Recommendations:

The Audit Committee is recommended to:

1. Note KPMG's audit plan for 2016/17 and the areas of review.

1. REASONS FOR THE DECISIONS

1.1 KPMG have been appointed by Public Sector Auditor Appointments. The purpose of this report is so the Council and Audit Committee know the scope of the planned audit. The committee can gain assurance that suitable audit monitoring controls are in place. This report will also allow Members to discuss the plan with both internal and external auditors.

2. ALTERNATIVE OPTIONS

2.1 The Committee might decide that they do not wish for the Audit Plan to be tabled at Committee.

3. DETAILS OF REPORT

3.1 The Audit Plan for 2016/17 comprises two elements:
- A review of the financial statements
- A Value for Money review

3.2 The Audit Plan is attached as Appendix 1.

3.3 The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit Regulations 2015. 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.

3.4 From 2017/18, the draft accounts will need to be published by 31st May and the audit opinion published by 31st July 2018. The 2016/17 closedown timetable is intended to achieve or at least get very close to having the draft accounts prepared by 31st May.

3.5 For 2016/17 the audit is still being conducted by KPMG. The main audit is due to commence in July 2017. 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.

3.6 FINANCIAL STATEMENTS AUDIT

3.7 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. For example if property plant and equipment is misstated. The external auditors haven't qualified previous statement of accounts.

3.8 Even though the 2014/15 audit has not been completed due to an outstanding objection to the accounts and the 2015/16 audit requires some further review work, there were no areas of concern raised that could have led to a qualification on the accounts.

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

3.10 **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.

3.11 **Pension Fund assets and liabilities** – The value of the Council's pension fund was in excess of £1.1bn at 31st March 2017 (including £149m cash balances awaiting investment). 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. KPMG will also be reviewing the tri-ennial valuation of the pension fund.

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

3.13 **Section 106/CIL 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.

3.14 **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.

3.15 **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. Pension benefits will also be reviewed by KPMG.

3.16 **Youth Services** – KPMG will review the investigations and audits into the Council's youth services.

3.17 **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.

3.18 **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.

3.19 **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.

3.20 **Audit Fee** – The audit plan outlines the annual audit fee. For 2016/17 the planned fee will be £209.918 and £21k for the pension audit.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5. LEGAL COMMENTS

5.1 The Council is required to prepare a statement of accounts in accordance with section 3(3) of the Local Audit and Accountability Act 2014 ('the 2014 Act') and the Accounts and Audit Regulations 2015 ('the 2015 Regulations'). 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

5.2 The 2015 Regulations 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 20 of the 2014 Act.

5.3 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.

5.4 Section 4 of the 2014 Act requires that the Council's accounts for a financial year must be audited by a local auditor appointed for that purpose and which is KPMG.

5.5 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.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 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.

6.2 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.

7. BEST VALUE (BV) IMPLICATIONS

7.1 There are no specific efficiency implications within this particular report 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.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 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.

9. RISK MANAGEMENT IMPLICATIONS

9.1 There are no specific risk management implications.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no specific risk management implications.

Linked Reports, Appendices and Background Documents

Linked Report
- NONE.

Appendices
- Appendix 1 – KPMG External Audit Plan 2016/17.

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
- NONE.

Officer contact details for documents:
- N/A

External Audit Plan 2016/2017

London Borough of Tower Hamlets

January 2017


KPMG
The Local Government Landscape
CYBER SECURITY
DCLG
DFE
NHS
DWP
FINANCIAL
PRESSURES
LEPS
£55M
INWARD INVESTMENT
ENTERPRISE ZONE
£10.5M
£8.5M
ECONOMIC GROWTH
SCIENCE PARK
THE GENERAL PUBLIC
HEALTH CENTRES
£10.5M
SCHOOLS
£5.5M
£4M
RECYCLING CENTRE
DEMOGRAPHIC CHANGE
CITIZENS TAKING RESPONSIBILITY
DEVOLUTION
MANAGE
FOR SALE
PLANNING REPORT
CARE MODEL REFORM
Cloud services
ISSUE
Off shore services
OUTSOURCE
WHOLE PERSON CARE
ISSUE
P45
COMPLEX DEPENDENCY
SUPPORTING INDIVIDUALS
SERVICES working together
NHS
DWP
DCLG
APPOINTMENT
FINANCE MODELS
HOUSING
FUNDING
Council tax
Business rate
Fees & Charges
MY FUTURE
ISSUE
OPERATIONAL EFFECTIVENESS
TRAINING
NEW SYSTEM
OLD SYSTEM
OPERATING MODELS
Legislation
MAYORAL ELECTION
S114
OVERSIGHT
BIG DATA
We are a Living Wage Employer
PUBLIC
PRIVATE
PARTNERSHIPS
WORKING TOGETHER
Ofsted
REPORT

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, 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.

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.

Significant risks

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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;
- Valuation of Pension Fund Assets
- Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation;
- Declarations of interest;
- Section 106/Community Infrastructure Levy (CIL) agreements; 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:

- Payroll;
- Youth services; and

Other areas of audit focus (cont.)

- Calculation of benefits.

See pages 4 to 8 for more details.

Value for Money Arrangements work

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

- Implementation of Best Value action plans (incorporating our Section 11 recommendation) [significant];
- Medium Term Financial Plan; and
- Progress in completing the 'clear up' project.

See pages 9 to 13 for more details

Logistics

Our team is:

- Andrew Sayers – Partner
- Antony Smith – Manager
- Ben Menzies-Wilson – Assistant Manager

More details are on **page 16.**

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 15**.

Our fee for the audit is £209,918 (£227,523 2015/2016) for the Authority and £21,000 (£21,000 2015/16 for the Pension Fund see **page 14.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 issued to you in April 2016, 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.

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 9 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17.

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during January 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

Risk assessment

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.

Page 15

— 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 generally 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, except for conditional grant income (which is predominantly made up of section 106 ie developers' contributions (80% of the total of £76 million in 2015/16)). We will therefore combine this work with the significant audit risks for section 106/CIL agreements.

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

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Property, Plant and Equipment (Authority)

Risk : The Authority has a significant asset base primarily relating to Authority 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 Authority's external valuers and the judgements made by the Authority in response to the information received. We will compare the assumptions made by your valuer to benchmarks and to the assumptions used for 2015/16 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).

Valuation of Pension Fund Assets (Pension Fund)

Risk : At 31 March 2016 the Pension Fund had investment assets totalling £979 million. The investment portfolio includes derivative contracts which can be complex to value. Given the size and potential for complexity in the investment portfolio we consider this to be a significant audit risk for 2016/17.

Approach : We will undertake detailed testing of investments as part of our final accounts audit, including assessing the design and operation of controls in place, obtaining independent confirmations from the Custodian (and Fund Managers as necessary) to verify year end balances, undertaking substantive testing over sales and purchases made in the year, reviewing year on year movements, and comparing performance to known benchmarks.

Significant Audit Risks (cont.)

Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation (Authority)

Risk : During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.

The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by the Authority itself as the pension liabilities represent a significant element of its balance sheet.

Further there are significant judgments made in relation to the assumptions to be adopted when calculating the pension liability.

Approach : As part of our audit of the Pension Fund, we will undertake work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as largest member of the Pension Fund.

We will also review the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO.

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Declarations of interest (Authority)

Risk : The Commissioners have informed us that they remain concerned as to whether declarations are being made appropriately and completely by both officers and Members. Our 2015/16 consideration of the Authority's approach noted some weaknesses in the Authority's systems and approach to the new requirement for all staff to complete an annual declaration of interest. In particular these related to completeness of records to ensure all staff have completed a return; for those staff identified to date there had not yet been a 100% return of declarations; training should be enhanced to ensure staff understand the importance of the declarations and completing them fully and accurately; obtaining further assurance about the process and consideration/ assessment of the returns received and whether any further action is needed.

Approach : We will therefore consider the Authority's actions taken and consider what/whether any testing should be undertaken in 2017.

Section 106/CIL agreements (Authority)

Risk : This has historically been highlighted as an additional area of concern by Commissioners from the enquiries they have made. The Authority has responded positively to an independent review of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements. Although our 2015/16 testing did not identify any issues in terms of balances held and monies spent, we did note some issues regarding when funds where spent vis a vis the deadline set out in the final agreements.

Approach : We will sample test a selection of schemes and the overall controls employed by the Authority to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process.

Significant Audit Risks (cont.)

Grant payments (Authority)

Risk : The Best Value Inspection concluded that the Authority had not achieved its best value duty with regard to the payment of grants and connected decisions between 2010 and 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. A small number of grant payments (seven, with a value of £32,721 across the 2015/16 and 2016/17 financial years) were identified by the Commissioners/ Authority as not having been made in accordance with the conditions the Commissioners had set ie considered to be unlawful. Whilst our testing of payments in 2015/16 did not identify any further significant issues, the lack of a central record of all grant payments made it difficult to identify the population that we needed to sample test to address the risks identified in our 2015/16 audit plan. We understand that the Authority intends to move to a unified system for recording all grant payments in 2017.

Approach : We will consider the detailed approach and systems put in place by the Authority and Commissioners and test payments as considered necessary. We will also assess whether any conditions/ delegation arrangements have been implemented effectively by Authority officers.

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.

Payroll (Authority)

Risk : Payroll represents a significant proportion of the Authority's annual expenditure (approaching 33% of gross spend at £482m in 2015/16). 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 test reconciliations for gross pay and deductions (eg pensions, tax and national insurance).
- Complete substantive analytical reviews of payroll costs and test supporting system information used to compile our review.

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Youth Services (Authority)

Risk : Reviews have uncovered historical shortcomings and wide spread malpractice in the Authority's youth service. The Authority has responded by putting in place an interim model to deliver services and is now moving to securing a long term strategic and operational plan for the service. There is an action plan in place to both deal with the historical matters and to move to the future service model.

Approach : We will consider the action plan specifically in relation to dealing with/ clearing the historical shortcomings and will consider undertaking further work if considered necessary to fulfil our audit responsibilities.

Other areas of audit focus (cont.)

Calculation of benefits (Pension Fund)

Risk : The calculation of benefits can be complex. In 2015/16 a total of £52 million was paid out by the Pension Fund (pensions and lump sums). Given the quantity and complexity of these calculations there is a risk of misstatement.

Approach : We will complete substantive analytical reviews of pensions in payment and test supporting system information used to compile our review; and test a sample of lump sum benefit calculations.

Financial statements audit planning (cont.)

Materiality

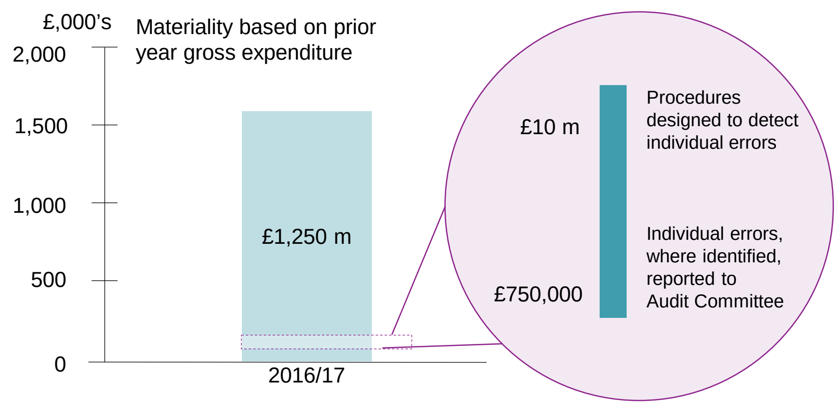
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment 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 1.2 percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £20 million, which equates to 1.8% of total net assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.



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 that an individual difference could normally be considered to be clearly trivial if it is less than £750,000.

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

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.

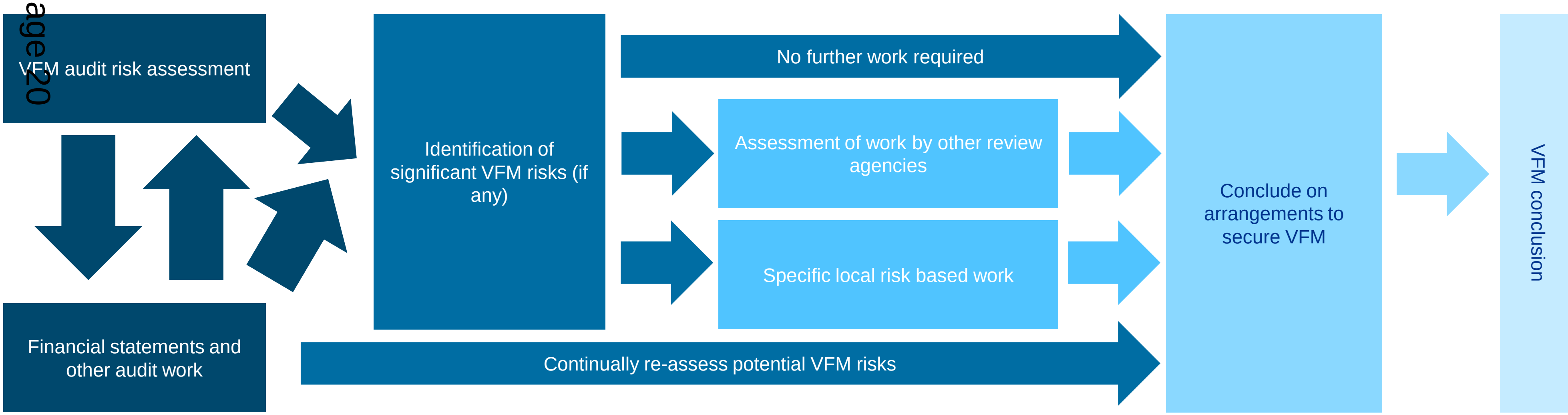
Value for money arrangements work

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 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.



Value for money arrangements work (cont.)

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

- Reliable and timely financial reporting that supports the delivery of strategic priorities.

- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

- Managing and utilising assets to support the delivery of strategic priorities.

- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.

- Commissioning services effectively to support the delivery of strategic priorities.

- Procuring supplies and services effectively to support the delivery of strategic priorities.

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 will update our assessment throughout the year should any 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 VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Implementation of BV Action Plans (incorporating our Section 11 recommendation)

- **Risk:** The Authority monitors progress towards implementation regularly and reports on a monthly basis to the Best Value Programme Board with a summary report produced every 6 months for reporting to the SoS CLG. The latest report to the SoS CLG (September 2016) reported 95% completion of these Plans. In light of the Authority's report and the accompanying commentary from the Commissioners, the SoS CLG is proposing to reduce/end two of the Directions (procurement and grants) with the elections Direction potentially being ended pending consideration of the conduct of the December 2016 Whitechapel bi-election. On the remaining Directions the Commissioners have reported that the Authority has further work to do to either complete the identified actions; that the actions have had the planned impact; have addressed the weaknesses in the Authority's arrangements; and are embedded into the Authority's culture.
- **Approach :** We will look to work undertaken by the Authority to consider the progress in implementing the BV Action Plans and the extent of embeddedness within the Authority to the extent that this can be assessed during 2016/17.

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 quality level of services to local residents. The Authority is estimating a small over

VFM – Areas of audit focus (continued)

Medium Term Financial Plan (continued)

spend (of around £1.5 million) for 2016/17. 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's latest MTFP includes a further £51.5 million in savings schemes/projects that will need to be delivered during the three years 2017/18 to 2019/20, after using £15 million of reserves (mainly from Earmarked Reserves – Mayoral priority). General Fund reserves are estimated to be £28 million at 31 March 2020. The Authority is in the process of finalising its proposals with Members for these future estimated savings. The delivery of the planned savings is critical to ensure the Authority's financial resilience is maintained. 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 Authority 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.

Progress on 'clear up' project

- **Risk**: In September 2016 the Authority set up an independent 'Clear Up' team to deal with any remaining allegations of impropriety or serious concerns that were brought to the team's attention (up to 8 December 2016).
- **Approach**: We will consider the Authority's general approach to the allegations made and how they are being dealt with. We will consider undertaking further work if considered necessary to fulfil our audit responsibilities.

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 2016/17 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 be led by Andrew Sayers (Partner); Antony Smith (Manager); and Ben Menzies-Wilson (Assistant Manager). Andrew and Antony provide continuity on the audit team. 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 2016/2017 issued to you in April 2016 first set out our fees for the 2016/2017 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.

The planned audit fee for 2016/17 is £209,918 for the Authority. This is a reduction in audit fee, compared to 2015/16, of £17,605 (7.7%). The planned audit fee for 2016/17 is £21,000 for the Pension Fund (2015/16 £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 (Jan)
- ISA 260 (UK&I) Report (Sep)
- Annual Audit Letter (Oct)

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

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Audit workflow

- Initial planning and risk assessment (Jan)
- Interim audit (Mar)
- Year end audit of financial statements and annual report (Jul)
- Sign audit opinion (Sep)

Planning

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

Control evaluation

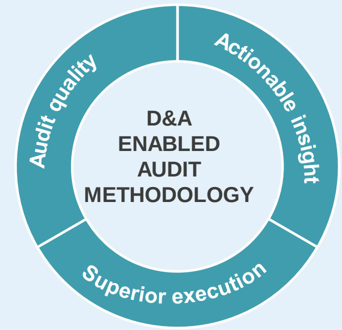
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

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 payroll 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.

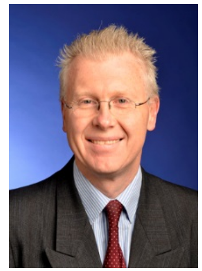
Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our senior 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, senior members of the finance team and the Head of Audit and Risk Management.’

T: 0207 311 2355

E: antony.smith@kpmg.co.uk

Name	Ben Menzies-Wilson
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: 0755 422 5624

E: ben.menzies-wilson@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 Standards require 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 13 January 2017 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 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** 31st January 2017	TOWER HAMLETS
Report of: Zena Cooke - Corporate Director - Resources	**Classification:** Unrestricted
Quarterly Internal Audit Assurance Report	

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

1. SUMMARY

1.1. This report summarises the work of Internal Audit for the period September 2016 to November 2016.

1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

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

3. BACKGROUND

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

Assurance	Definition
Full	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
Substantial	While there is a basically sound system there are weaknesses which put some of the control objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;
Limited	Weakness in the system of controls are such as to put the system objectives at risk or the level of non-compliance puts the system objectives at risk;

Nil	Control is generally weak leaving the system open to significant error or abuse, or significant non-compliance with basic controls leaves the system open to error or abuse.

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

Significance	Definition
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.

4. OVERALL AUDIT OPINION

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

4.2. **Direction of Travel**

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

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

5. OVERVIEW OF FINALISED AUDITS

5.1. Since the last Assurance Report that was presented to the Audit Committee in September2016, twenty eight final reports have been issued. The findings of these audits are presented as follows:

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

- Appendix 2 provides a brief summary of each audit.

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

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

5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2005 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

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

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	N/A	Total
Significance	Extensive	1	9	4	1	15
	Moderate	-	11	2	-	13
	Low	-	-	-	-	-
Total Numbers		*1*	*20*	*6*	*1*	*28*
Total %		*4%*	*71%*	*21%*	*4%*	*100%*

5.4. From the table above it can be seen that of the fifteen finalised audits which focused on high risk or high value areas; one was assigned full assurance, nine were assigned Substantial Assurance, four were assigned Limited assurance and one was not applicable. A further thirteen audits were of moderate significance and of these eleven were assigned Substantial Assurance and two were assigned Limited Assurance.

5.5. Overall, 75% of audits resulted in an adequate assurance (substantial or full). The remaining 21% of audits have an inadequate assurance rating (limited or nil) and 4% Not Applicable.

6. PERFORMANCE INDICATORS

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

Performance measure	Target	Actual
Percentage of Audit Plan completed up to the quarter to November 2016	65%	65%
Percentage of Priority 1 Audit Recommendations implemented up to July 2016 by Auditees at six monthly follow up audit stage	100%	70% 14 out of 20
Percentage of Priority 2 Audit Recommendations implemented up to July 2016 by Auditees at six monthly follow up audit stage	95%	40% 6 out of 12

6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 70%, whereas the percentage of priority 2 recommendations was 50%. Details of priority 1 and priority 2 recommendations not implemented are set out in Appendix 3. Details of recommendations not implemented for each Follow Up audit are sent to the relevant Service Head and the Corporate Director for any appropriate action they would like to take.

7. COMMENTS OF THE CHIEF FINANCE OFFICER

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

8. LEGAL COMMENTS

8.1. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.

8.2. Pursuant to Regulation 3 of the Accounts and Audit Regulations 2015 (‘the 2015 Regulations’), the Council is required to ensure that it has a sound system of internal control that 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.

8.3 The Council is also required by Regulation 5(1) of the 2015 Regulations to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

8.4 Quarterly Assurance Reporting from Internal Audit is an integral part of ensuring compliance with these duties.

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Development and Renewal	Management and Control of Lettings
	Extensive	Corporate	Establishment Control
	Extensive	Communities, Localities and Culture	Risk Management Follow Up
	Extensive	Communities, Localities and Culture	Market Vouchers
	Moderate	Children's Services	Troubled Families
	Moderate	Children's Services and Adults Services	Management and Control of No Recourse to Public Funds
SUBSTANTIAL			
	Extensive	Children's Services	Youth Offending Service
	Extensive	Resources	Council Tax
	Extensive	Resources	NNDR
	Extensive	Resources	Photocopier & Printing – Second Follow Up
	Extensive	Corporate	Staff Recruitment
	Extensive	Corporate	Management and Control of Waivers of Financial Regulations
	Extensive	Corporate	Management and Control of Staff Hospitalities and Gifts
	Extensive	Tower Hamlets Homes	THH Leaseholder Service Charges Follow-Up
	Extensive	Tower Hamlets Homes	THH Financial Systems

Assurance level	Significance	Directorate	Audit title
	Moderate	Communities, Localities and Culture	Watney Market Idea Store – Regularity Audit
	Moderate	Children's Services	Redland Primary School
	Moderate	Children's Services	Woolmore Primary School
	Moderate	Children's Services	Olga Primary School
	Moderate	Children's Services	Beatrice Tate Special School
	Moderate	Children's Services	St Saviour's CoE Primary School
	Moderate	Children's Services	Harpley Inclusion Support Centre
	Moderate	Children's Services	St Elizabeth Catholic Primary School
	Moderate	Children's Services	Cherry Trees School
	Moderate	Adults Services	Smoking Cessation – Public Health Contract Monitoring FU
	Moderate	Adults Services	Health Trainers NW Follow-Up
FULL	Extensive	Tower Hamlets Homes	THH Management of SLAs Follow-Up
N/A	Extensive	Resources	One Stop Shops – Regularity Audit

Summary of Audits Undertaken **APPENDIX 2**
Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Lettings Systems Audit	Sept. 2016	This audit was requested by the Chair of the Audit Committee. The audit involved an examination of the systems and controls in place for assessing, prioritising and approving applications to the Housing Register and the resulting lettings in order to ensure that decisions taken were in accordance with Council policy and statutory guidance. The Council's Housing Allocations Scheme and Lettings Policy were approved by the Cabinet on 10/04/2013 and progress against the Plan was subsequently reported to Cabinet in March 2015. Currently some 19,120 people were on the housing waiting list and for 2015/16, approximately 2,091 lettings had been made. A sample of 20 out of 121 lettings relating to LBTH during October to December 2015 was tested by Audit. The following issues were highlighted:- • In determining the applicant's eligibility, only one proof of applicant's Identity was being accepted. This is not in compliance with the Council's lettings policy and procedures, which require two forms of identity proof. • In 2 cases tested by Audit, management confirmed that these lettings did not meet the required standards and procedures as the applicants' eligibility and assessment could be open to challenge. Other case by case concerns identified by Audit were also referred to management for review. • In 14 cases it was unclear what verification checks were being done on matters concerning overcrowding, home ownership, ASB and income over £85,000. Standard checklists were held on the system, but these were not adequate. There was no written guidance over verification checks to be made on the information given in the application form. Therefore, we could not provide assurance over the soundness of decisions reached. • We could not establish complete audit trail in a number of cases. Therefore, decisions around determination of the applicant's eligibility, assessment and determination of priority groups were found to be not fully supported by valid evidence.	Extensive	Limited ⇨

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Lettings Systems Audit	Sept. 2016	• There were no systematic management checks, reviews and monitoring, to provide assurance that policy and procedures were complied with by staff. • We noted that the risk of fraud, irregularity and corruption in the lettings process had not been identified and assessed within the Team Plan. Consequently, controls to mitigate these risks have not fully documented and it is possible, that fraudulent and irregular applications are processed and made eligible. All findings and recommendations were agreed with the then Service Head, Housing Strategy, Regeneration and Sustainability and Final report issued to the Corporate Director, Development and Renewal.		

Management Comments

Housing Options (Lettings) management has taken on board the findings of the Audit Report which has identified some good practices, and weaknesses which are being addressed. Most of those recommendations have either been implemented or are in the process of being implemented, including the following:

Detailed comments were provided to Audit on the specific cases and issues identified as part of this audit; also procedures and processes including standard letters which have been updated.

Letters to housing applicants now require two forms of ID to be provided, one of which must be a photo ID.

Application checklist on Comino which has to be completed each time an application is made active has been updated. Staff have to now also confirm that they have checked whether an applicant is a homeowner, earns an income of more than £85K, and is guilty of bad behavior.

Proof of ID and other important documents from One Stop Shop are being checked to make sure they have been duly certified by OSS staff. One Stop Shop manager has been reminded of this requirement.

The revised housing application form is with Reprographics and incorporates recommendations made by Audit relating data sharing and other comments received from staff and housing association partners.

Information has also been uploaded on the Homeseekers website reminding applicants of their obligations to be truthful.

The first round of spot checks, for cases offered and are active, will be started first week in December. A meeting has been set up for 11 January 2017 to discuss the findings with a view to improving processes and procedures further, as may be necessary.

The draft procedure guide to complement the checklist staff have to complete has been circulated to Attainment & Assessment team and Applications & Admin team. The guide will be updated further if necessary, especially to address any issues identified from regular spot checks that will be carried out.

Staff have all completed their declaration of interest, and will form part of the induction for any new starters.

The Lettings Team Plan has been updated and incorporates action to detect and prevent fraud.

The Council's Lettings Service will ensure all the recommendations are fully implemented and will look to continuously improve its policies and procedures and processes to make sure it provides full assurance by audit standard.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Establishment Control	Sept 2016	The audit was designed to review the systems and processes in place, in order to provide assurance around the effective management of the Council's establishment levels and to evaluate the potential consequences which could result from any weaknesses in internal control procedures. The main weaknesses were as follows:- • There is no requirement for service managers to review their establishment lists on a monthly basis and notify HR of any amendments required. • A review of the establishment list obtained for March 2016 confirmed the concerns raised over the usefulness and completeness of the data including the fact that there are 102 posts that are detailed as being vacant for four or more years but there are no further details as to why they have been long-term vacant. • The data held on both the Council's establishment list and the Agresso system is not reconciled on a consistent and timely basis, and we identified a number of variances between the two systems, including unfunded posts being present on the establishment list which is contrary to the Council's Financial Regulations. • There is a need for the data held on the Comensura system to be reviewed against the establishment list and for the Council to re-classify people who are paid through the Comensura system but should not be included within the establishment list. • From a sample of 20 employees tested, we were unable to obtain evidence that access approval forms in respect of the ResourceLink system had been completed in five cases. All findings and recommendations were agreed with the Interim HR, OD & Transformation Manager and Senior HR Business Partner and reported to the Corporate Director, Resources.	Extensive	Limited ⇔

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Management Comments
A Project Officer has been commissioned to lead on the resourcing, establishment validation and data cleanse project as part of the One HR programme of service improvements. Work has already commenced on establishment cleansing and reconciliation of the data held by both HR and Finance within the respective Resourcelink and Agresso systems with the involvement of managers to ensure accuracy of data. Additionally, the project includes reconciliation between the Comensura system and establishment lists. The project is a standard agenda item at the monthly One HR Programme Board where its progress is monitored. This project will be completed by 31st March 2017. Concurrently, there is a review of employees within the HR Service who have approval to access and update Resourcelink and for whom the relevant approval forms will be completed.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Risk Management Follow Up CLC	Oct. 2016	This audit followed up recommendations made at the conclusion of the original audit in June 2015. Our testing showed that out of the 2 detailed high priority recommendations made in the final report, one relating to the use of standard templates for recording and assessing service based risks was implemented. Out of two detailed medium priority recommendations agreed at the conclusion of the original audit, none had been fully implemented. We were not provided with sufficient evidence to show the effective implementation of recommendations relating to ensuring that risks for the Strategy and Programmes Team were identified and assessed; that risks recorded on service plans had proper controls, control owners and target dates; that on a periodic basis Directorate and Service risks were sample tested to ensure compliance with procedures; that the DMT was provided with assurance about the effectiveness of risk management within the Directorate; and that risks were challenged, reviewed and updated on a regular basis on the JCAD system. All findings and recommendations were agreed with the Finance Business Partner and final report was issued to the Chief Executive and Interim Corporate Director, Communities, Localities & Culture.	Extensive	Limited ⇐

Management Comments
Following the corporate restructure, the recommendations raised within CLC Directorate will be reassigned by the Risk Champions Group and followed up in due course.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Market Vouchers	Sept 2016	The London Borough of Tower Hamlets (the Council) operates 11 markets across the area, which is cumulatively open for 364 days each year. These include iconic markets such as Brick Lane, Columbia Road and Petticoat Lane. The responsibility for the management, control and enforcement of markets and other street trading activity sits with the Communities, Localities and Culture Corporate Directorate. The Head of Community Safety Enforcement & Market Services, Safer Communities assumed responsibility for the Markets function in April 2012. A separate trading account is maintained for the management of markets, and the Council does not contribute to the costs of the markets from central funding. Total income generated from markets fees and charges in the 2014/15 financial year was £2,487,878 achieving an overall net budgetary surplus of £5,547. A balanced gross budget of £2,314,000 was set for 2015/16. The main weaknesses were as follows:- • Reconciliations are not signed and dated following completion and to evidence independent peer review. In addition, any differences identified are not always investigated by the responsible officers and therefore lost income may not be identified and allocated appropriately. • THEOs are required, during their daily enforcement visits to verify the identification of the traders and ensure Public Liability Insurance has been renewed (where previous cover has expired). Exceptions were identified in the operation of this process. • Spot checks are not being undertaken to supervise the work of the THEOs. • Policy and procedure documents in respect of the administration of market vouchers are either not signed or not dated by the reviewing officer; there is no version history control used. Future review dates/responsible officers are also not identified. • The Controlled Stationery Sheet, which is required to be completed as and when a new box of vouchers is commenced and completed, is facing delays in its completion due to resourcing constraints. • Vouchers sold in 2014/15 are still located at the Market Services Office and are yet to be archived. These should have been archived in April 2015.	Extensive	Limited

		All findings and recommendations were agreed with the Principal Licensing & Development Officer and Interim Head of Service, Trading Standards and SC – Commercial Services and Environmental Health Service Manager, and reported to the Chief Executive and Interim Corporate Director, Communities, Localities and Culture.		

Management Comments

Following a number of staff being absent from the workplace for a considerable time, staff have now returned and the markets structure in a more sustainably working position. The service is also under review looking at operational practices and procedures which will result in restructuring of the service.

Therefore with the increase of staffing level, the appointment of an interim manager and deployment of a team leader, THEO supervision is taking place on a more regular basis identifying poor working practices and placing in corrective measures.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Troubled Families	Sept 2016	In April 2012, the Government launched the Troubled Families Programme: a £448m scheme to incentivise local authorities and their partners to turn around the lives of 120,000 troubled families by May 2015. The first programme worked with families where children were not attending school, young people were committing crime, families were involved in anti-social behaviour and adults were out of work. In June 2013, the Government announced plans to extend the Troubled Families Programme for a further five years from 2015/16 and to reach up to an additional 400,000 families across England. Aiming to target nearly 4,000 families in Tower Hamlets, the borough has been provided with a budget of £2,072,145. The audit was designed to review the system in place for the management and monitoring of the Troubled Families Programme. The main weaknesses were as follows:- • Key Performance Indicators (KPIs) have not been produced since November 2014 and comparisons have not been made against the expected targets. • When PBR claims have been independently checked they are not signed-off to evidence that this check is conducted by the said officer. • Criteria six, 'Health' is currently not being used by the Troubled Families Team to make PbR claims. • Terms of Reference (ToR) for the Operational Steering Group and the Strategic Programme Board were not fit for purpose. • During testing, it was identified that two claims had been put through for assurance, however, due to lack of supporting evidence, this should not have been the case. • There was insufficient evidence maintained of training undertaken by staff. • Information from third parties is not screened for accuracy. • There is no evidence to support that budget monitoring is undertaken by the Children's and Families Board. All findings and recommendations were agreed with the Service Manager, Youth Justice and Family Interventions and Service Head, Children's Social Care and reported to the Corporate Director, Children's Social Care.	Moderate	Limited ⇕

Management Comments

This audit was conducted at the request of the Troubled Families Coordinator to test the manual data collection and evidence collection that the programme is still having to use in Tower Hamlets. This is due to significant delays in the development of an electronic data system. It is a condition of the national programme that any payment by results claims are audited on a regular basis. The programme team were under pressure to submit a PBR return and therefore the TF co-ordinator decided to test a small claim.

The audit process was very helpful in enabling the programme team to understand the breadth and depth of the programme demands. The process was very demanding because the programme team were working from static manual data rather than a live electronic system the two rejected claims were as a result of the fact that a time limited snapshot of data was accurate on the day of checking, but subsequent changes in the evidence (over a matter of days) had been missed.

Trying to run the TF programme on a manual system is almost impossible without a significant increase of resources. The programme is at significant risk as result of a historical lack of vision and strategic vision and leadership at a corporate level.

There is a WPA in place that reflects the work currently focussed on procuring and developing an electronic data system. It is a very late development in year five of an eight year programme. The programme is at a critical stage and at high risk of failure.

The learning from this audit has been incorporated in the development of the data system. It is unlikely that the programme will be ready to submit another PBR claim for approximately 6 months other than employment claims that demand a lower level of evidence of family 'turn around'. The new data system will contribute to the evidence needed in approximately 6 months. An external facing expert has been involved in the programme to advise and support the data system development on a pro bono basis. His expertise and advice has been invaluable to enable accurate planning and attention to risk.

The CEO will be receiving regular updates on the programme progress to enable to maintain sight of the programme risks.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of No Recourse to Public Funds Children's Services and Adults Services	Sept 2016	No recourse to public funds' (NRPF) applies to migrants who are 'subject to immigration control', and as a result of this have no entitlement to certain welfare benefits, local authority housing, and homelessness assistance. 'No recourse to public funds' may be stamped on the visa of a foreign national living in the UK. Other groups of migrants who have NRPF include asylum seekers, refused asylum seekers, and migrants whose visas have expired. The London Borough of Tower Hamlets as a Local Authority has a duty to provide support to those individuals who have No Recourse to Public Funds (NRPF) including providing accommodation to destitute adults and to safeguard and promote the welfare of children. The London Borough of Tower Hamlets along with the other London boroughs has a higher turnover of population compared with areas outside of London. In 2013 the turnover of residents in London was 31 for every 1,000 compared with 13.4 for other areas in the same year. NRPF cases are therefore an area of fraud risk for London boroughs in particular, and according to the European Institute for Combatting Corruption and Fraud, there were 432 cases detected in London in the 2014/15 financial year with a value exceeding £7m. The administration of NRPF cases is undertaken by the Council's Adults Social Care (ASC) and Children's Social Care (CSC) Services. The main weaknesses were as follows:- 1.Regular management information concerning NRPF such as caseloads and cases due for review is not regularly produced and escalated to management. 2.Of the 20 NRPF cases (both ASC and CSC) selected for testing, documentation was only provided in respect of the nine ASC cases. Consequently we are unable to provide assurance in respect of the CSC cases. For the ASC cases tested, a delay in the assessment was recorded for four out of the nine cases. In addition, for all nine cases in which documentation was provided, none of the cases had been reviewed during the 2015/16 financial year. 3. The Council has not reviewed its NRPF subsistence rates to ensure they are appropriate and reflect current guidance.	Extensive	Limited ⇕

		4. The Council's NRPF policy and procedure documentation is not up to date and was last revised prior to the implementation of the Care Act 2014. 5. The cash office used for issuing NRPF subsistence payments has closed. A long term alternative method for issuing the payments had not yet been identified. 6. There are very few NRPF cases currently being administered by the ASC teams. As per current arrangements the Council's NRPF Panel only review the cases concerning the CSC Team but could look to include the NRPF cases assessed by the ASC teams to help ensure a more robust and consistent approach. 7. Delays have occurred with NRPF queries being communicated between the Council and the UKBA. A member of staff who would previously facilitate communication with the UKBA is no longer in post at the Council. 8. The Council has recently gained access to a portal through membership of the NRPF Network, but is not yet making effective use of the facility. 9. During the audit although budget information was provided by ASC, there was no indication that budget and performance monitoring information concerning NRPF for both ASC and CSC was being escalated through the appropriate reporting or governance structure. 10. No performance management information, such as caseload, is produced on a regular basis and reported through the governance structure. All findings and recommendations were agreed with the: Service Manager for Adults Social Care, Service Manager for Assessment and Early Intervention (CSC), Service Head for Children's Social Care, and Head of Adult Social Care, and reported to the Interim Corporate Director for Children's Social Care and Corporate Director for Adult Services.		

Management Comments (Covering both Adults Social Care (ASC) and Children's Social Care (CSC))

1- Management information is available on a team basis and service areas are able to identify cases due for review. It is noted that there is a delay in conducting annual reviews across Adult Social Care. From a CSC perspective, Management Information is also available via monthly management information reports as well as from review on fwi (see comments below in relation to caseloads). As part of wider Quality assurance work that is being undertaken, a "Management Dashboard" is also being created for front line managers which will provide access to a suite of reports to facilitate review of team activities.

2- There is a delay in completing the annual reviews of all ASC cases which will include NRPF cases. Actions are currently being undertaken to reduce the period of delay. However, checks are in place to determine whether eligibility status has changed on a monthly basis when payments are collected by the Service User.

3- It is proposed that ASC adopts the No Recourse to Public Funds (NRPF) subsistence rates available through the NRPF portal which is managed by the LB of Islington. The rates are adopted across the majority of London Boroughs. Current subsistence rates vary across teams but the current recommended adult rate is £44pw.

4- A joint meeting has also taken place between CSC and ASC to review subsistence rates. It is proposed that a joint paper is prepared by Case Officer and Project Manager to present to DMT for agreement.

The most recent guidance is dated 2011. (see below)

http://towernet/staff_services/OneTH/services/20016/no_recourse/?view=Standard

An updated version has been requested and colleagues in Legal Services will undertake this piece of work. This has been taken forward by the Community Engagement, Quality and Policy Manager, Policy, Programmes and Community Insight Service.

5 - Although the public facing cash office has closed, a back office function is still available to ASC and facilitates the cash provision. The Finance team is considering the options relating to a prepaid card solution. From a CSC perspective, payments continue on a business as usual basis.

6 - It is recommended that both DMTs consider the potential benefits identified by the audit of having a joint panel. An ASC Service Manager will attend a panel to observe. CSC concur with this approach.

7 - The volume of NRPF cases in ASC is low in comparison with CSC. Minimal delays are currently experienced by officers in ASC but officers in CSC are prepared to offer support to their colleagues in ASC if required in these instances.

8 - Staff in ASC are encouraged to utilise access to the portal and it is recommended that the Council apply the subsistence rates as set out. From a CSC perspective, now that the IT issues are resolved and access for staff has been widened effective use is being made of NRPF Connect to expedite information re Service Users status and to increase the timeliness of completing assessments.

9 - It is recommended to DMT that the monthly performance reports provided are commissioned to include activity and spend relating to NRPF. CSC concur with this.

10 - As above. From a CSC perspective, caseload activity is extrapolated from fwi. A Workload Weighting Matrix is also in place for the Assessment and intervention team where individual workload of team members (including the S/W for NRPF). All allocated Assessments are also regularly reviewed using the LBTH Assessment tracking tool that is sent to managers on a daily basis. All allocated cases (NRPF) are subject to regular review mechanisms with line management.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Youth Offending Service	Sept. 2016	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. They 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:- • Incorrect references were made to organisation names within the contract between the Council and the City of London. • The Youth Offending Service Team Plan for 2016/17 was yet to be reviewed and formally agreed. • Additional procedures remained in draft format and required appropriate review and approval. • There was a lack of clarity identified as to whether the Information Systems Manager position required a valid DBS certificate. • DBS certificates held by the staff within the Youth Offending Service were	Extensive	Substantial ⇨

		reviewed and in one case it was confirmed that renewal was held up due to a delay in the service received from the DBS. However, a completed and authorised DBS Waiver form was not in place as expected. • The Youth Offending Service had recently implemented a new approach to help ensure the consistency of recording and retention for staff supervision documentation. However, the success of this was yet to be evaluated. • Data cleansing reports were examined and found not to be run on a consistent basis. • One case was identified where a purchase card holder had used the card to purchase travel cards for regular travel whereas these should be purchased by the employee and claimed back via the HR self-service (expenses) system. 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 Corporate Director, Children's Services.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Council Tax	Aug 2016	The Council Tax function is responsible for the correct identification of residential properties, billing of correct amounts, processing of discounts and voids, collection of income and recovery of arrears. For the year commencing 2016/17 there were 122,248 banded properties within the Tower Hamlets Borough, which is an increase of 3,175 since 2015/16, with band C containing the highest number of chargeable properties at 36,804 and band H the lowest at 535 properties. For the year 2016/17 the cumulative value of Council Tax collected was £26.0m as at 28 June 2016, which is 26.29% of the total Council Tax due for 2016/17. At the same point in the previous year, 26.97% had been collected. The audit was designed to provide assurance to management as to whether the systems and controls around the management of Council Tax 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: • In two of the 20 exemptions tested, it was found that adequate documentation and eligibility checks were not obtained and retained. • Two of the 20 exemptions tested were N1 exemptions, awarded to dwellings which are student blocks owned by private companies. The exemption is applied from the time when the property is built and no written confirmation is subsequently received that the properties continue to be occupied by students. • In one of the 20 write offs tested, it was found that the write-off was incorrectly processed for the wrong amount. • In three of the six monthly suspense reviews that were tested, it was found that there was no evidence that the suspense review by management was performed. • It was found that as at 28 June 2016 there were 89,559 closed council tax accounts with credit balances in them, of total value of £8,342,211.40. Of the total amount, those over seven years amounted to £4,223,111.34 and	Extensive	Substantial ⟺

		those over 10 years amounted to £2,943,953.71. Where credit balances are left in closed accounts for over seven to ten years, there is an increased risk of potential misuse or theft of such monies. • In one of the 20 daily reconciliations between AIMS (the cash receipting system) and Civica (the Council Tax system) that were tested, it was found that the reconciliation was not signed by the officer responsible for undertaking the reconciliation. All findings and recommendations were agreed with the Council Tax and Income Manager and reported to the Service Head, Revenue Services, and the Corporate Director of Resources.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR	Sept. 2016	The National Non Domestic Rate (NNDR) function is responsible for the identification of billable properties, correct input of Valuation Office data, correct and timely billing, processing of reliefs and collection of income including debt recovery. Business rates or NNDR collected by the Council are the means through which those who occupy a business property contribute towards the cost of local services. The Council has approximately 15,596 business properties as at 8 August 2016. A total of £153m had been collected in respect of NNDR as on 29 July 2016, which represented 36.82% of the total amount billed. The audit was designed to provide assurance to management as to whether the systems and controls around the management of NNDR 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: • It was identified that independent quality reviews of workflow items were not being carried out consistently for all staff. Independent reviews had only been carried out for four out of eight members of staff between April and August 2016. In addition there was no feedback being provided to staff on issues that had been identified. A similar recommendation was raised in the previous two audits of this area in 2014/15 and 2015/16. • The monthly reconciliations of the Civica and AIMS systems were not subject to independent review. This was due to the Revenue Support Manager, who completes the review, being on long term sick leave. All findings and recommendations were agreed with the Non-Domestic Rates Manager and the Service Head, Revenue Services, and reported to the Corporate Director of Resources.	Extensive	Substantial ⇔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Photocopier & Printing Second Follow Up	Nov. 2016	This was a second follow up audit on the Photocopier & Printing Contract. The original report on this subject was finalised in June 2014 and the first Follow Up report was finalised in July 2015. Both these audits were assigned Limited assurance. Our testing showed that of the 2 high priority recommendations made in the finalised first follow up report, one recommendation was progressed but not effectively embedded and one recommendation regarding the signing of lease agreement was still outstanding. However, this issue is out of the ICT Client Team's control as Legal services have still not arranged for the signing of these agreements. Of the remaining three medium priority recommendations two had been progressed. Our review showed that the monitoring of the SLA with Agilisys together with checking of click charges invoiced by Agilisys with the actual portal readings on the devices had improved. However, the recommendation relating to the signing of leases was still outstanding as two lease agreements still remained to be signed by Legal services. We also noted that a Quarterly Purchase Order register was created to record lease agreements and orders to be raised. However, we found that purchase orders were still being raised after invoices had been received. We also noted that in accordance with audit recommendation, a full analysis was undertaken of all Orders raised and invoices paid since the start of the contract to establish any under and overpayments to Xerox. This exercise showed that underpayment of £173.56 was rectified by raising Purchase orders and overpayment of £915.21 was recovered through the credit note process. All findings and recommendations were agreed with the Service Head Customer Access, Transformation & ICT and final report was issued to the Corporate Director of Resources.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Staff Recruitment	Nov 2016	Staff recruitment is concerned with the interviewing, selection and validation of new and existing employees that are to be appointed by the Council. Recruiting managers identify a vacancy and advertise the post both internally and externally depending on the nature of the job. From the 1 August 2015 to the 31 July 2016 the Council recruited to 494 job entries on i-Grasp (the electronic recruitment system) some of which had multiple vacancies. Approval of the decision to recruit is completed electronically through this system, by Service Heads with an audit trail being retained. Once the decision to recruit is approved, each post is advertised. Methods of advertisement include: the Council's website, the Guardian newspaper and the internal intranet. The method can vary depending on which is deemed most appropriate by the Recruiting Manager. The People Resourcing Team arrange interviews and contact the candidates for the recruiting managers. Pre-employment checks are also completed by the People Resourcing Team, with the level of checks required being dependant on the specific post being applied for. The audit was designed to provide assurance to management as to whether the systems and controls around the management of Staff Recruitment 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 internal Recruitment and Selection Standards Policy did not contain a version control history, and had not been updated since 2014. • The Recruitment and Selection Standards did not reflect current working practices in terms of training for shortlisting panel members. It was stated that all panel members must have the appropriate training when actually a minimum of one member of the panel is required to have undertaken the Recruitment and Selection Standards training course although ideally all will be trained. • Candidate files were not subject to an independent review, which meant that not all supporting documentation required was held on each	Extensive	Substantial ⇨

		candidate's file. This included missing interview assessment notes for one recruitment exercise. • Feedback from recruiting managers on the processes in place identified key areas of potential improvement to the i-Grasp system and working practices that the Council should look at addressing. All findings and recommendations were agreed with the Interim HR, OD & Transformation Manager and Consultancy Business and Performance Manager, and reported to the Corporate Director of Resources.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Waivers of Financial Regulations Follow Up	Nov. 2016	This report details the findings and recommendations of a follow up audit on the Management and Control of Waivers of Financial Regulations, specifically Procurement Procedures. The original report in relation to this subject was finalised in May 2015. There was progress made in implementing some of the agreed recommendations. Our testing showed that of the four high priority recommendations made in the Final Report one was fully implemented, two were partly implemented and one was not implemented. Of the two medium priority recommendations, one was partly implemented and one was not implemented. We found that a new e-sourcing system was in the process of being implemented by Procurement which will require all contracts (valued under £25,000) to be sourced through the e-sourcing system RFQ (Request for Quotation). This will require all procurement activity to be undertaken through a single portal. However, the implementation of an electronically controlled RCDA system through Agresso with a robust workflow process has not been considered. We also noted that quarterly off-contract expenditure report was not sent on a regular basis by Procurement to Financial Compliance Manager in order to identify, investigate and escalate matters of non-compliance to Service Heads and Directors. All findings and recommendations were agreed with Service Head, Finance and Procurement and Interim Service Head, Legal Services. Final report was issued to the Corporate Director, Resources.	Extensive	Substantial ⇔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Staff Hospitalities and Gifts	Nov. 2016	The objectives of this audit was to review the systems and procedures for controlling and monitoring staff hospitality and gifts across all Directorates to ensure the Council's ethical standards were being complied with. Audit testing highlighted the following:- • Clear corporate policy on staff hospitality and gifts was in place and aligned to the Employees Code of Conduct and the Councils Financial procedures. However, these had not been regularly reviewed. • With the exception of D&R, CLC and Resources Directorates, there was no Senior Officer nominated at Directorate level for monitoring hospitalities and gifts and reporting such matters to DMT on a regular basis. • Our testing confirmed that regular reviews of Staff Hospitality Register forms were not undertaken by Chief Officers and evidenced. • Our testing identified some unusual items of hospitality recorded on the registers. These issues were reported to management. • It was noted that not all Directorates were maintaining the Hospitality Register in the required form or were using out of date versions of the Staff Hospitality Register forms. • Audit noted that 53 out of 139 forms examined had some form of electronic signature submitted on the form. We have recommended that a clear corporate policy is developed on the protocol and acceptability of using electronic signatures. All findings and recommendations were agreed with Consultancy, Business and Performance Manager and final report was issued to the Chief Executive and all Corporate Directors.	Extensive	Substantial ⇔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Leaseholder Service Charges Follow-Up	Oct 2016	Tower Hamlets Homes (THH) manages approximately 22,000 rented and leasehold homes on behalf of LB Tower Hamlets. Approximately 50% of the stock is leasehold properties. A service charge is the amount leaseholders pay towards the cost of managing their block and estate, including repairs and cleaning. The amount of service charge payable depends on the lease and the services provided to the block and/or estate in which the property is located. The total amount of Service charges collected for the year ending 31/03/2016 amounted to £14,669,402, which was 104% of the targeted collection. The original THH Leaseholder Service Charges audit was undertaken as part of the 2014/15 audit plan. The final report was issued in August 2015 and was awarded a Substantial assurance opinion. Our follow up review identified that the one high priority recommendation raised in the original report had been partly implemented. Of the four medium priority recommendations made in the original audit report, two of these had been fully implemented, one recommendation was partly implemented, and one had not yet been implemented. Following our testing, we have made three further recommendations to enhance the control environment within this area. The areas of weakness are as follows: • There are delays in action being taken to recover monies owed and the subsequent escalation of such cases to the Legal Team. • The Suspense account still shows items that have been cleared. A change to this can only be made once the Northgate upgrade goes ahead. • The Suspense procedure is yet to be updated and is due to be once the Northgate upgrade goes ahead. All findings and recommendations were agreed with the Head of Leaseholder Services and Leasehold Services Manager and reported to the Director of Finance (THH) and Chief Executive (THH).	Extensive	Substantial ⟺

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Financial Systems	Sept. 2016	This audit was undertaken as part of the 2016/17 internal audit plan to provide assurance to management as to whether the systems of control around the Tower Hamlets Homes (THH) financial systems are sound, secure and adequate; and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. The key weaknesses identified were as follows:- • Invoices had been paid late for both Purchase Order (PO) and non-PO expenditure. • POs had been raised after invoices for nine cases out of the random sample of 20 PO expenditure items tested. • There were delays between Accounts Payable (AP) forms being completed and their subsequent input onto Agresso. • The approval tick-sheet for approving investments, reconciliations and other functions by the Financial Systems team had been approved late, been incorrectly dated and had not been signed by the Head of Finance for the past three months (April, May and June 2016). • Policies and procedures failed to show when they were last reviewed and when they are next due to be reviewed. • Examination of the VAT return summary form for March-May 2016 (period 5) showed that it had not been signed by the Head of Finance. All findings and recommendations were agreed with the Finance Manager (Financial Accountant), Head of Finance, Director of Finance, and reported to the Chief Executive (THH).	Extensive	Substantial ⇔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Watney Market Idea Store Regularity Audit	Oct 2016	This regularity audit was completed in order to review the procedures for various areas of the Idea Store Watney Market and help to provide assurance that these procedures are up to date and are being complied with. The £4.5m Idea Store Watney Market opened on the 14 May 2013 and was jointly funded by the Big Lottery Fund and Tower Hamlets. It offers a wide range of services to the public over its three storey building including adults, youth and children's library facilities. The Idea Store Watney Market includes an integrated One Stop Shop. The Idea Store Watney Market is open six days a week; Monday – Saturday. This audit was undertaken as part of the 2016/17 agreed Audit Plan. The audit was designed to provide assurance that the procedures for the Idea Store Watney Market systems are sound and secure and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures including value for money and equalities issues. The main weaknesses were as follows: • In eight of the 10 purchase payments tested, there were no physical delivery notes maintained to confirm evidence of goods received and the staff receiving the goods. In addition, the goods received evidence recorded on Agresso was found to be completed by the same person who raised the purchase order. Hence it was not possible to confirm a segregation of duties. • One of the two Red (Red, Amber, Green - RAG rated) issues in the Health and Safety Inspection Report Action Plan was found not to have been addressed (the report was issued on 09/02/2016 and the issue was required to be actioned immediately). This related to the PAT testing of a personal Radio/CD player in situ in the office. • On review of the Inventory Register it was found that it was incomplete and did not contain several details including the serial numbers of hardware items, items of the same make and model were combined together and not recorded individually, and there was inconsistency in allocating identification numbers to the council-owned property. Upon	Moderate	Substantial ⇔

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		physical verification of a sample of 10 inventory items, two issues were identified relating to security marking and PAT testing. • There was no evidence of annual inventory checks being carried out by a responsible officer at the Idea Store. All findings and recommendations were agreed with the Head of Idea Store and Idea Store Manager and reported to the Service Head (Culture, Learning and Leisure, Communities Localities & Culture) and Chief Executive (Interim Corporate Director, Communities, Localities and Culture).		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Redlands Primary School	Sept 2016	The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:- • The School should ensure that all policies and procedures are reviewed and updated when due and presented to the FGB for review and approval. • All virements should be presented to the FGB for review and approval. • The School should ensure that all valuable/portable assets are security marked with permanent asset tags. • The School should ensure that all newly purchased assets are updated onto the School's Asset Register system in a timely manner. • The tax status of all self-employed individuals should be confirmed to ensure PAYE / NI is deducted accurately. • The results of the annual review of the School Fund should be presented to the FGB. This should be clearly minuted within the relevant FGB minutes. • The School should follow-up on outstanding invoices from the Local Authority in a timely manner, in order to conclude outstanding school journey trips and report to the FGB with the "End of Journey Statement". All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.	Moderate	Substantial ⇔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Woolmore Primary School	Aug 2016	The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:- • Purchase orders should be raised prior to purchases being made. • The approved budget should be labelled 'final' and should also be signed by both the Headteacher and the Chair of Governors. • Staff should ensure that only the approved budget figures are inputted into the School's financial system. • Financial costs should be included in the School Improvement Plan. • There were unreconciled cheques in the School's financial system, from December 2013, which were not expected to be paid. Consideration should be given to writing these amounts off. • Goods received confirmation should be retained once goods have been received. • The school should consider having a register for all those staff considered as self-employed and for them to sign to declare they are responsible for their own NI and tax contributions. • Segregation of duties should be in place for the collection of income in the School and with respect to the banking of that income. • The final financial costs of the Schools 'school journeys' should be reported to the Full Governing Body. • Applications forms for new starters should be signed at each applicant's interview. • Loan forms for staff loans should include a date for the equipment to either	Moderate	Substantial

		be returned or checked for current condition. • Invoices should be paid within 30 days of the invoice being raised. • Petty cash vouchers should be authorised by budget holders and the petty cash purchasing procedure should be revised to detail what is classed as acceptable petty cash purchases. • Meeting minutes of school committees should be correctly dated and checked. • A contract register should be in place to help the school monitor the contracts in place. All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Olga Primary School	Sept. 2016	The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial management of the school. The key recommendations were as follows:- • The minutes should be signed by the Chair of the relevant Committee to acknowledge an accurate record of the discussions of the previous meeting. • Purchase orders should be raised for all purchases, where appropriate, and independently signed-off by an authorised signatory before an order is placed with the supplier. • Declarations of interest should be a standing item on all Committee meeting agendas and minutes. • The Terms of Reference for all committees should include the quorum requirements. • The School should ensure that all documentation including the initial cost relating to school journey is retained and an End of Journey Statement should be produced and presented to the Full Governing Body for review and approval as soon as the trip has concluded. • The School should seek assurance on the completeness and accuracy of its inventory records. • The School should ensure the results of the annual inventory check are presented to the Full Governing Body for review and sign-off as soon as the check is carried out and this should be minuted accordingly. • All future “School’s Raising Attainment Plans” should be presented to the Full Governing Body for review and approval. • A leavers checklist should be developed to assist in the staff leaver process and subsequently be retained in staff personal files. All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Beatrice Tate Special School	Sept 2016	The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:- • The Governing Body should establish a Finance Committee. Once the Finance Committee has been established: - Terms of reference should be drafted and approved by the Governing Body; - the Committee should meet on a termly basis; - Minutes should be signed off by the Chair of the Committee; and - minutes should be presented to the Governing Body for review. The School should also look into the possibility of creating other sub committees to support with the running of the School. • Management should ensure that the Code of Financial Management and Scheme of Financial Authority are formally presented to the Full Governing Body and approval is clearly minuted. • The School Improvement Plan should be reviewed and approved by the Full Governing Body on an annual basis. • Management should ensure that bank reconciliations are signed by the officer completing the reconciliation and subject to checks by a second independent officer. • The School should ensure that the results of the recent inventory check is presented to the Full Governing Body to be reviewed and signed off and this should be minuted. Going forward the inventory check should be conducted on an annual basis thereafter. • The inventory records should be reviewed and updated on a regular basis. • Responsibility for maintaining the inventory records should be delegated to a named individual. • All equipment loans forms should include a section for authorisation of the	Moderate	Substantial ⇔

		loan and this must be signed by the Head Teacher or a delegated member of staff. • A leavers checklist should be developed to assist in the staff leaver process and retained in the staff personal files. The checklist should include acknowledgement of: - return of access pass; - notification sent to the ICT coordinator; - return of loaned equipment, and - repayment of other outstanding payments or loans if applicable. All findings and recommendations were agreed with the Head Teacher and Senior Administration Officer and reported to the Chair of Governors.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Saviour's CoE Primary School	Oct 2016	The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:- • All invoices should be stamped with the date of invoice received and paid as soon as possible to avoid late payment charges. • The School should ensure that an initial costing report and an End of Journey Statement should be produced and presented to the FGB for review and sign off. • A Debt Management Policy should developed by the School covering actions to be taken to recover debts. The Debt Management Policy should be presented to the FGB for review and approval, and for noting in the minutes. • The School should keep a clear record of the payroll reconciliations every month. • The School should ensure the result of the annual inventory check are presented to the FGB for review and sign-off once the check is completed. This should be formally documented in the meeting minutes. All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.	Moderate	Substantial ⟺

Title	**Date of Report**	**Comments / Findings**	**Scale of Service**	**Assurance Level**
Harpley Inclusion Support Centre	Oct 2016	The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:- • Declarations of Business Interests should be obtained on an annual basis for all staff with financial responsibilities. • Purchase orders should be raised for all purchases, where appropriate and independently signed-off by an authorised signatory before an order is placed with the supplier. • The School should obtain the required number of quotations and retain copies of the quotes on file to support the decision. If there is only one viable supplier for goods and/or services, a Waiver form should be completed detailing the reason why the School's Financial Procedures cannot be complied with and presented to the Full Governing Body for approval. • A Disposal Policy should be drawn up covering the disposal of laptops, devices and sensitive data. This should be presented to the Full Governing Body for approval and minuted accordingly. • The School Improvement Plan should include costs and estimates where appropriate, to help inform the discussion / decision process. • Income should be banked as soon as it is received and recorded on the Financial Management System to help ensure that the School's financial records are complete. • The Local Authorities Financial Procedures should be presented to the Full Governing Body for review and approval annually. Where there are differences between the Financial Procedures and the School's working practice e.g. Petty Cash limits, this should be formally noted that the School wishes to operate minor variances to the Procedures. Procedures should be amended to reflect the local working practices.	Moderate	Substantial ⟺

		• All deliveries should be checked on receipt by the receiving officer. Invoices should be signed-off by the certifying officer, to confirm that the goods have been received. • The Head Teacher should reminds budget holders payments to suppliers should be made within the 30 days payment term. Where payment needs to be delayed, or where invoices have been received with a delay, this should be noted accordingly. The Finance Team should carry out periodic spot checks to confirm that payments were being paid promptly. • The School’s Asset Register should be maintained and updated on a regular basis to reflect any changes to equipment and/or its location. Periodic sample checks should be undertaken to confirm existence of assets and their locations. • The Policy Log should be monitored on regularly to help ensure that all policies are up to date. Where policies are approaching their renewal date, this should be raised with the policy owner to confirm and/or arrange for it to be updated. • Governors training records should be maintained and evidenced in the Full Governing Body minutes. All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Elizabeth Catholic Primary School	Oct 2016	The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:- • Management should remind staff that purchase orders should be raised for all purchases, where appropriate, and authorised by an independent authorised signatory before an order is placed with a supplier. Where there needs to be an emergency purchase, a retrospective purchase order should be raised. • The School should ensure that an End of Journey Statement is presented to the Full Governing Body for review and approval in a timely manner once each trip has been concluded. • The School should ensure the results of the annual inventory check are presented to the Full Governing Body for review and sign off once the check is completed. This should be formally minuted in the relevant meeting minutes. • Declarations of Business Interests should be obtained on an annual basis from all Governors and retained in the School. All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.	Moderate	Substantial ⇔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cherry Trees School	Nov 2016	The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:- • Budget monitoring reports should be prepared in a timely manner following the month end. The Head Teacher must review and sign off the report. • Bank reconciliations should be completed on a regular and timely basis (i.e. monthly). Furthermore, bank and petty cash reconciliations should be reviewed and signed off by an independent officer. • Official order forms should be raised for all purchases, where appropriate, and retained on file. Furthermore, all orders should be authorised by an independent authorised signatory before they are placed with the supplier. • Petty cash reimbursements should only be authorised for small, urgent incidental expenses where it is not feasible or practical to use the normal purchase order process. • Medical checks for new starters should be completed prior to the start date of the employee commencing work. • Accurate inventory records should be maintained. All new purchases and items over £150 should be included on the Asset Register as soon as possible. • An E-Safety Policy should be formally approved by the Full Governing Body and reviewed annually. The policy should be made available to all staff. • The Schools Improvement Plan should be reviewed and updated annually. The revised plan should be presented to the Full Governing Body for review and approval and should be clearly minuted. • Payroll reconciliations should be undertaken on a monthly basis. Once completed, the reconciliation should be independently reviewed and signed off by the Head Teacher and documentation retained to confirm this has taken place. All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.	Moderate	Substantial ⇔

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Smoking Cessation Public Health Contract Monitoring Follow-Up	Aug. 2016	Reducing tobacco use is a strategic priority for NHS Tower Hamlets. The aim is to provide quality provision of very brief advice through a number of GP practices throughout the borough, with each practice having a trained dedicated Cessation Advisor to provide a structured cessation programme, supported by Tower Hamlets Public Health. They will see smokers on a one-to-one basis for an eight week programme providing behavioural support in addition to cessation medication. This contract was awarded by way of a Section 75 Agreement to the Clinical Commissioning Group to the sum of £290,000. A full systems audit on the GP NIS Smoking Cessation was undertaken in August 2015. This audit was assigned an opinion of Limited Assurance, based on the findings and the recommendations raised. This report presents the findings and recommendations of the follow up audit, conducted in July-August 2016; the objective was to assess whether the agreed recommendations at the conclusion of the internal audit had been implemented. Our follow up review showed that of the eight high priority recommendations made at the conclusion of the original audit, seven recommendations had been fully addressed. Following our audit work, we have made one high priority recommendation to enhance the control environment within this area. The areas of weakness are as follows: • The Section 75 agreement, between the Council and the Tower Hamlets Clinical Commissioning Group (CCG) for 2016/17 has not been formally signed by both parties. All findings and recommendations were agreed with the Public Health Commissioning Programme Manager and reported to Interim Director of Public Health, Associate Director of Public Health and Service Head Adult Social Care.	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Health Trainers NW Follow-Up	Nov 2016	This follow-up audit reviewed the contract monitoring arrangements for Health Trainer Service which provides primary prevention and community based support in Tower Hamlets. The provision is open to all who live in the borough and are aged 18 years and over. The Service has been running for nine years and has been commissioned on a locality basis with one provider organisation per locality. In order to develop outreach into the community the service is commissioned from local community organisations situated in the locality. In addition, there is a volunteer programme of health champions from the community who are provided with training to support the programme delivery. There are four Health Trainer contracts in place covering the whole borough: - NW awarded to Osmani Trust £275,000 SW awarded to Stifford Centre £275,000 NE awarded to Bromley by Bow Centre £274,602 SE awarded to Poplar & Limehouse Health & Wellbeing Network £275,000. This audit has looked at the monitoring arrangements in place for the Osmani Trust Contract. A full systems audit on the Health Trainers NW was undertaken in August 2015, which was assigned an opinion of Limited Assurance, based on the findings and the recommendations raised. This report presents the findings and recommendations of the follow up audit, concluded in November 2016; the objective was to assess whether the agreed recommendations at the conclusion of the internal audit had been implemented. Our follow up review identified that, of the eight high priority recommendations made in the original audit report, five of these had been fully implemented. Three high priority recommendations could only be confirmed as partially implemented. Therefore, three further recommendations have been raised to address these issues, as follows: • It is recommended that the Osmani Trust contract is now signed off as per the decision taken by the Team Leader – Contracts.	Moderate	Substantial

		• It is recommended that all generic risks identified in the annual risk register are referred to during the quarterly assessments, with specific reference being made to each risk. This should also be adequately documented. In addition, operational risks should be identified providing detailed explanations surrounding the impact and likelihood of each risk. Again, evidence of this should be appropriately documented. Moreover, the quarterly risk assessments document should be subject to review and be accurately dated to expressly confirm the relevant quarter it relates to. • It is recommended that a programme of unplanned visits is prepared and adhered to by the appointed members of staff, in order to establish the integrity of the contractor's data and all visits performed are recorded and dated – as per the original recommendation. Management should also ensure that the quarterly monitoring schedule being maintained is accurately dated showing the relevant quarter it relates to. All findings and recommendations were agreed with the Public Health Commissioning Programme Manager and reported to Director of Public Health and Corporate Director Adult Services.		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Management of SLAs Follow-Up	Oct 2016	A full systems audit on the Management of SLAs was undertaken in December 2015, for which the audit was assigned an opinion of Substantial Assurance. The audit was scoped to focus on two of the 23 service level agreements (SLAs) in place in detail, and the Legal Services SLA and the ICT SLA were selected prior to the start of the audit. In 2015/16, year eight of the Management Agreement, 23 SLAs were budgeted for by THH, with total costs of £6.4m. This represented 18% of the management fee (£35.1m) that THH receives from LBTH. This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented. This follow up audit was undertaken as part of the 2016/17 agreed Internal Audit Plan. Our follow up review identified that the two medium priority recommendations made in the original audit report had been fully implemented. Following our testing, we have not made any further recommendations to enhance the control environment within this area. All findings and recommendations were agreed with the Director of Finance (THH) and reported to the Chief Executive (THH).	Extensive	Full ⇨

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
One Stop Shops (Regularity)	Aug 2016	The London Borough of Tower Hamlets Council's One Stop Shops provide face-to-face contact to members of the public, and offer information on as well as support with accessing the Council's services. The most common interactions are in respect of Housing Benefit and Council Tax Reduction Scheme, housing provided by Tower Hamlets Homes, Council Tax, Social Services, and parking. The audit was designed to undertake planned visits to the One Stop Shops throughout the Borough, in order to provide assurance that the Council's rules and regulations, including those regarding financial transactions, security, and data protection, are complied with in the performance of the various front line customer service functions which the One Stop Shops provide. The main weaknesses were as follows:- • Key performance indicators (KPIs) targets are not always achieved, in particular with regards to the target for 75% of customers being seen within 15 minutes, which was not being met at the time of the audit for any of the One Stop Shops. • The reconciliation procedures do not clearly instruct staff to sign the reconciliation if there are no un-reconciling items found. • The copies of passports photocopied on behalf of the benefits service were found in 14 out of 20 cases to be of a standard not to clearly identify the claimant. It was established that the staff cannot currently scan documents directly into the system and that the Council is currently exploring other available systems for identifying individuals as a result no recommendation has been raised. • There is no version history control incorporated in policies and procedures. All findings and recommendations were agreed with the Head of Customer Services and One Stop Shop Manager and reported to the Service Head for Customer Access, Transformation and IT, and the Corporate Director of Resources.	Extensive	N/A

APPENDIX 3

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

Audit Subject	Recommendation	Service Head	Officer Name
Risk Management CLC	It should be ensured that all Service heads and Heads of Services are informed in writing and at the DMT that risks identified on the service plans should include sufficient controls, control owners and the target dates against the control measures to ensure that accountabilities for risk management are clear.	N/a	Stephen Adams
Photocopier and Printing Contract monitoring 2nd Follow Up	The Service Head ICT should write to the Head of Legal Services to request that the two Lease Agreements are signed as a matter of urgency to protect the Council contractually and legally	Sean Green	Khaled Hussain
Smoking Cessation Public Health Contract Monitoring	The Public Health Commissioning Programme Manager should request an explanation from legal services as to why contracts remain unsigned.	Somen Banerjee	Keith Williams
Health Trainers	It is recommended that the Osmani Trust contract is now signed off as per the decision taken by the Team Leader – Contracts.	Dr Somen Banerjee	Keith Williams
Health Trainers	All generic risks identified in the annual risk register are referred to during the quarterly assessments, with specific reference being made to each risk. This should also be adequately documented. In addition, operational risks should be identified providing detailed explanations surrounding the impact and likelihood of each risk. Again, evidence of this should be appropriately documented. Moreover, the quarterly risk assessments document should be subject to review and be accurately dated to expressly confirm the relevant quarter it relates to.	Dr Somen Banerjee	Brenda Scotland

Audit Subject	Recommendation	Service Head	Officer Name
Health Trainers	It is recommended that a programme of unplanned visits is prepared and adhered to by the appointed members of staff, in order to establish the integrity of the contractor's data and all visits performed are recorded and dated – as per the original recommendation. Management should also ensure that the quarterly monitoring schedule being maintained is accurately dated showing the relevant quarter it relates to	Dr Somen Banerjee	Brenda Scotland

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

Audit Subject	Recommendation	Service Head	Officer Name
Risk Management CLC	The Risk Champion should carry out sample checks to ensure compliance and provide assurance to the DMT on a regular basis as to the effectiveness of risk management process and compliance within the Directorate.	N/a	Stephen Adams
Risk Management CLC	Those service level risks scored 10 or above (10 being significant concern, and some immediate action required plus comprehensive action plans) should be monitored through the JCAD system. Risks that are Directorate and corporate level should be monitored through JCAD system and the Risk Champion should ensure that the agreed procedures are complied with.	N/a	Stephen Adams
Photocopier and Printing Contract monitoring 2nd Follow Up	It should be ensured that the risk around MFD/Printer availability is properly assessed and scored, and details regarding the required control measures, control owner and target date for review are recorded.	Sean Green	Khaled Hussain

Audit Subject	Recommendation	Service Head	Officer Name
Leaseholders Charges (THH)	The Leaseholder Team should look to ensure that there are no delays in recovery procedures and, where necessary, should escalate to the Legal Team in a timely manner. Consideration should be given to introducing a Key Performance Indicator (KPI), or a tracker, to help identify, monitor and escalate any delays. In addition, due to the delay in action being undertaken in a number of cases over £5k, a further action plan may need to be implemented to help officers to manage their cases more efficiently and in a timelier manner.	Neil Isaac	Aklak Shahid.
Leaseholders Charges (THH)	Management should discuss with Finance the need to 'clean up' the suspense account with a view to removing items which have been cleared to ensure that the suspense account only shows outstanding items, whilst enabling users to view the full history of cleared items should this be required. This exercise should be repeated on a regular basis to prevent the management of the suspense account from becoming inefficient. Implement recommendation as above when the Northgate upgrade testing phase is complete, as this was not complete at the time of the audit.	Neil Isaac	Aklak Shahid.
Leaseholders Charges (THH)	Update Suspense Procedure once the outcome of the Northgate upgrade has been determined.	Neil Isaac	Aklak Shahid.

Non-Executive Report of the: **Audit Committee** 31st January 2016	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:** Unrestricted
Monitor of Progress of Actions Arising from KPMG's 2015-16 ISA260 Report To Those Charged With Governance (Council and Pension Fund)	

Originating Officer(s)	Kevin Miles – Chief Accountant
Wards affected	All Wards

Summary

This report is intended to update the Audit Committee on progress made to date on the issues raised by KPMG in the draft ISA260 (Report to those charged with Governance) tabled at this committee on 29th September 2016.

The report gives details of 2 main areas

- Significant audit items – items identified in the External Audit Plan 2015-16 that pose a significant risk in the Financial Statements

- Prior year recommendations – these items were included in the ISA 260 for 2014-15 but have not yet been fully implemented.

Recommendations:

The Audit Committee is recommended to:

1) Note the progress of the items detailed in the ISA 260

1. REASONS FOR THE DECISIONS

1.1 To provide an update on progress on implementing the recommendations arising from the ISA 260 are addressed and implemented.

2. ALTERNATIVE OPTIONS

2.1 The Council could opt not follow up these recommendations but then would be in contravention of its statutory duty.

3. DETAILS OF REPORT

3.1 In September 2016, officers presented the draft Statement of Accounts for 2015-16 to Audit Committee (including the pension fund accounts). These accounts are compliant with the requirements of International Financial Reporting Standards (IFRS). The auditors had substantially completed their review, and subject to a few areas requiring further consideration, KPMG were in a position to issue a draft ISA260 detailing their findings.

3.2 Contained within the report are a number of areas identified within the Audit Plan that carry a significant risk to the authority. These areas are:

- Property Plant and Equipment
- Grant Payments
- Declarations of Interests
- Fraud risk of Revenue Recognition
- Management Override of Controls
- Pensions Assets - Liabilities
- Payroll
- Income from Property Leases
- Youth Services

3.3 Most of these items have been reviewed to the auditors' satisfaction as part of the 2015-16 audit. The areas where audit review work is continuing relates to:

- Grant Payments
- Declarations of Interests
- Income from Property Leases

Officer Comments on the progress on these items can be found in Appendix 1

3.4 **Grant Payments** – officers have put arrangements in place to ensure all grants receive proper approval.

3.5 **Declarations of Interest** – all officers and members are required to complete a declaration of interest. The audit review work is to ensure all declarations are completed.

3.6 **Income from property leases** – audit review work is continuing in reviewing property leases where grant receiving organisations use Council property in providing services.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The Chief Finance Officer has been consulted in the preparation of this report and has no additional comments to make.

5. LEGAL COMMENTS

5.1 The Council is required to prepare a statement of accounts in accordance with section 3(3) of the Local Audit and Accountability Act 2014 ('the 2014 Act') and the Accounts and Audit Regulations 2015 ('the 2015 Regulations').

5.2 Section 4 of the 2014 Act requires that the Council's accounts for a financial year must be audited by a local auditor appointed for that purpose and which is KPMG.

5.3 The International Standard on Auditing (UK And Ireland) 260 deals with the auditor's responsibility to communicate with those charged with governance (i.e. the Council) in an audit of financial statements. The ISA provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. This includes communicating to the Council areas that have been identified where there are significant risks affecting the Council's financial statement.

5.4 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. In that regard, the 2014 Act 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'.

5.5 It is therefore consistent with the Council's Best Value Duty to action the issues raised by KPMG in the draft ISA260 tabled at the Audit Committee on 29th September 2016.

5.6 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.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 Implementing recommendations arising from the ISA260 contributes to the delivery of 'One Tower Hamlets' objectives.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The Council's achievement of the principles of Best Value are assessed annually as part of the final audit of the Council's financial statements by the Council's external auditors KPMG. KPMG have reported on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter published alongside the committee decision to approve the accounts.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There are no 'Sustainable Actions for a Greener Environment' implications contained in this report.

9. RISK MANAGEMENT IMPLICATIONS

9.1 There are no specific risk management implications.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications.

Linked Reports, Appendices and Background Documents

Linked Report

- ISA260 - Report to those Charged with Governance 2015/16

Appendices

- Progress on ISA260 Recommendations

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- None

Officer contact details for documents:

- Brian Snary – Financial Accountant ext. 5323

Progress on Risks identified in 2015-16 Audit Plan

Item	Risk*	Audit Findings*	Status	Officer Comments
	Significant Audit Risks			
1)	**Property Plant and Equiment (PPE)** 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.	We have considered the Authority's approach to valuation of PPE with reference to accounting standards and the Code; the information provided to the valuer; reportsreceived by the Authority from its valuerand the judgements made by the Authority in response to those reports. We have compared your valuer'sassumptions to benchmarks and to assumptions used for 2014/15 for consistency and ensured that the valuerexplicitly considered upward trends as well as impairments in conducting the valuations; and also whether there were material changes in valuations for asset classes valued more than 12 months ago. We also considered disposals (in relation to the BV Inspection findings and consequent Direction); and the completeness of information held on the new fixed asset system. We have no matters to bring to your attention as a result of completing this work.	No Further action	
2)	**Grant Payments** 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 represented the first full year of the new arrangements being in place.)	Our work in this area is not yet complete. Our planned approach was to consider the detailed approach and systems put in place by the Council and Commissioners and to assess whether any conditions/ delegation arrangements have been implemented effectively by Authority officers. At the time of writing this report we have recently agreed to select our sample for testing from a list of grant programmes, rather than a complete list of grants made in 2015-16 as planned originally. We are also awaiting details of potentially unlawful items of account where we understand that several grants were paid when the conditions set by Commissioners had not been met.	Ongoing	

3)	**Section 106 Agreements** The Commissioners highlighted this as an additional area of concern from the enquiries they have made. The Authority has also had an independent review undertaken of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements.	We have tested a selection of schemes and the overall controls employed by the Authority to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process. Our testing of 27 schemes did not identify any issues in terms of balances held and monies spent during 2015-16. We noted that there are two schemes which have gone beyond the time when the s106 agreement requires the funds to have been spent. (PA/06/01439 expired October 2015 and the balance at 31 March 2016 was £3m we understand this balance has been committed to two projects which have commenced in 2016-17 and that the developer making the original payment has been dissolved; and there is one further small scheme which has gone beyond the time when the s106 agreement required the funds to have been spent (PA/02/1852 -£40,000). We understand that due to the circumstances of each scheme that there is very limited risk of the funds being lost. We have also noted a further scheme which is due to expire in January 2017 with a balance of £2.1m at 31 March 2016 where there are approved schemes in place that are due to use the balance during 2016-17. We will review the position on this scheme as part of our 2016-17 audit (PA/06/2068). We have also considered the results of the independent review and the Authority's response. The review raised a number of recommendations for improvements, which the Authority has responded to positively. The Authority has reported that all recommendations have been implemented except those that required the implementation of a new software system which has been procured and is in the process of being implemented.	Ongoing	
4)	**Declarations of Interest** 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.	We have reviewed the actions taken by the Council which now include a requirement for all staff to complete an annual declaration. Our testing of the declarations made has not identified any issues. However, we have noted a number of concerns: • The initial response by staff to the new requirement was slow. We understand that the Authority has now received over 90% of expected returns, which has taken 6 months and a 100% return is essential to meet the aims of the exercise; • We understand that the Authority is satisfied that every member of staff has been identified and therefore required to complete a declaration form, but our experience elsewhere suggests that it is worthwhile obtaining further assurance on this aspect, such as from an internal audit review; • Human Resources have provided Corporate Directors and Heads of Service with reports that identify whether submitted declarations have been authorised or rejected by line managers to help inform whether to consider further appropriate action if there are areas of concern. In view of the concerns expressed by the BV Inspection and Commissioners we would anticipate that a further level of assurance is sought as to how robust the process has been in terms of considering the declarations made and any follow up action taken; and • There is little in the way of comprehensive training so that staff are clear what the Authority's requirements and objectivesare understood clearly by staff and that they have the necessary information to complete declarations properly and to support theAuthority in terms of any issues that might arise from incomplete declarations.	Ongoing	Whilst the initial response was slow the current position is that 99.75% of employees have completed their individual declaration of interest form with the outstanding responses being as a result of employee absence. The HR Service continues to monitor completion on and provide reports to every director on a weekly basis. In addition, Internal Audit are carrying out an independent review to provide further assurance and testing the validity of declarations made by officers. Discussions are currently taking place with Internal Audit to develop joint briefing sessions on individual responsibility on a wide variety of matters including declarations of interest.

	Other Areas of Focus			
5)	**Fraud Risk of Revenue Recognition** Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	In our External Audit Plan 2015-16 we reported that we do not consider this to be a significant risk for Local Authorities asthere is unlikely to be an incentive to fraudulently recognise revenue. Subsequently, we have revised our assessment and consider that conditional grant income (which is predominantly made up of s106 developers' contributions (80% of the total of £76 million)) should be considered as a risk. This work has therefore been reported within the significant audit risks for section 106 agreements earlier in this section.	Ongoing as part of item 2 above	
6)	**Management Overide of controls** Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	Our audit methodology incorporates the risk of management override as a default significant risk.We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.	No Further action	
7)	**Pension assets / liabilities** 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.	We have: • Confirmed that the information provided to the actuary from the Authority is reasonable; • Reviewed the actuarial valuation and considered the disclosure implications; and • Considered the approach adopted and assumptions made by your actuaries to benchmarks and other information available to us and to the assumptions used for 2015-16 for consistency with previous years.	No Further action	No concerns raised by KPMG. Audit opinion for 2015-16 Pension Fund Accounts issued in Novemeber 2016.
8)	**Payroll** 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 auditperspective to understand the nature of the Authority's expenditure in this area.	As noted in the Headlines section our work in this area has not yet been completed. We plan to: • Review and test reconciliations for gross pay and deductions (e. g. pensions, tax and national insurance). • Complete substantive analytical review of payroll costs and testing supporting system information used to compile the review.	Ongoing	No issues raised by KPMG so far as part of 2015/16 audit.

9)	**Income from Property Leases** 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 impacts on VFM 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	Our work in this area is not yet complete. Our planned approach was to consider the Authority's approach to leasing its property and the information held to support its decision making and then to test a sample of agreements to assess whether the approach to leasing is followed in practice. This area is closely linked to our work on grants and therefore will be completed at the same time.	Ongoing	KPMG have met with officers and requested some more information which (at the time of writing) was in the process of being provided.
10)	**Youth Services** 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. Again this is an area that also impacts on VFM.	The Council has taken considerable action with regards to the Youth Service in terms of improving its governance; spending controls; and service delivery. New senior officers have been appointed to manage the Service and it has been moved to a different Directorate to give it a greater opportunity with more of a 'fresh' start. There is a detailed action plan in place which is in the process of being implemented. In addition the Youth Services Project Group will oversee the progress of investigations (current and future) into individuals and organisations that are known to the Youth Service from the various investigations that have been completed previously. This group will ensure that suitable pace is injected into the progress of the investigations and other arising issues enabling management within the Youth Service to conclude on historical matters and concentrate of the future of the Youth Service. The Project Group comprises senior officers from Children's Services, Human Resources, Internal Audit, Finance, Legal Services, and Communications.	No Further Action	

*Text taken from KPMG ISA260 report

KPMG

External Audit Report 2015/16

London Borough of Tower Hamlets

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DRAFT - 26 September 2016

Contents

The contacts at KPMG in connection with this report are:

Andrew Sayers
Partner

KPMG LLP (UK)

Tel: + 44 [0]207 694 8981

andrew.sayers@kpmg.co.uk

Antony Smith
Manager

KPMG LLP (UK)

Tel: + 44 [0]207 311 2355

antony.smith@kpmg.co.uk

Ian Livingstone
Assistant Manager

KPMG LLP (UK)

Tel: +44 [0]207 694 8570

ian.livingstone@kpmg.co.uk

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

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 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

We note that some work is still ongoing and accordingly this draft report will be updated to produce a final version at the point the financial statements are signed.

Scope of this report

This report summarises the key findings arising from:

- Our audit work at the London Borough of Tower Hamlets ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in June 2016 2015, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August and September 2016.

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

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas;
- Continuing our consideration of the Authority's actions to address issues raised by the 'Best Value Inspection of London Borough of Tower Hamlets' report (the BV Inspection report) produced by PricewaterhouseCoopers LLP (PwC);
- consideration of other matters brought to our attention by the Tower Hamlets Commissioners; and the Department for Communities and Local Government (DCLG); and
- following up on relevant issues included in our *ISA 260 Report 2014/15* presented to the Audit Committee in March 2016.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Acknowledgements

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

Section two: Headlines

Headlines

In relation to the Authority's and Fund's financial statements we anticipate issuing an unqualified audit opinion subject to the satisfactory resolution of our outstanding work.

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This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We have some further work to be complete relating to the financial statements audit (see 'Completion' later in this Section for details). On the basis the remaining the work and outstanding queries are resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report, subject to completing journals testing and our review and completion procedures being concluded satisfactorily. We note that we have not yet issued our opinion on the 2014/15 financial statements yet. This is due to the objection relating to the Authority's Lender Option Borrower Option loans which raises questions about whether the loans were taken out lawfully and the objector is asking that we apply to court that the LOBO loan borrowing is unlawful. The 2014/15 financial statements will need to be signed prior to the 2015/16 financial statements being signed. See 2014/15 section below.
Audit adjustments	We are pleased to report that our audit of the financial statements did not identify any significant adjustments. The Authority made a number of minor adjustments, all of which were of a presentational nature. There have been no changes that affect the General Fund or HRA balances or the Authority's net worth as at 31 March 2016.
Accounts production and audit process	We received complete draft accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has implemented two out of the three recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. At this stage we have not drafted and agreed with officers recommendations in relation to the current year, these will be reported to the Audit Committee at a subsequent meeting. We anticipate raising some recommendations in relation to grants. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with most audit queries. However, the additional work and supporting information needed in relation to the BV Inspection means that the audit process has not been completed within the planned timescales. As in previous years, we will debrief with the Accounts team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particularly we would like to thank Authority officers who were available throughout the audit visit to answer our queries.

Headlines

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Financial statements audit risks	We identified the following significant financial statements audit risks in our 2015/16 External audit plan issued in June 2016. — Property Plant and Equipment (PPE); — Section 106 agreements; — Grant payments; and — Declarations of interest. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report. In summary: — There are no matters of any significance arising as a result of our audit work in PPE. — In relation to section 106 agreements we have noted two small schemes where the Authority has not spent the monies received within the timescales specified, although we understand there is very limited risk that the funds could be lost. — For declarations of interest we have noted that there are potential shortcomings in the system in place now that all staff are required to make an annual declaration. — Our work on grant payments is incomplete. We have recently agreed to select our sample for testing from a list of grant programmes, rather than a complete list of grants made in 2015/16 as planned originally. We are also awaiting details of potential unlawful items of account where we understand that several grants were paid when the conditions set by Commissioners had not been met.

Headlines (cont.)

In relation to the Authority's VFM arrangements we anticipate issuing a qualified VFM conclusion on similar grounds to that in 2013/14 and proposed for 2014/15.

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VFM conclusion and risk areas	We identified one significant risk and two areas of audit focus in relation to our VFM work in our External audit plan 2015/16 issued in June 2016 in relation to the implementation of the BV action plans and Section 11 recommendation. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. In terms of our VFM conclusion our key consideration has been in relation to the progress made on the areas which led us to qualify our VFM conclusion in 2013/14 and proposed qualification for 2014/15. These areas were grant payments and connected decisions; disposal of property and the granting of leasehold interests; spending on publicity; and corporate governance arrangements in the three areas. Our proposed qualification for 2014/15 additionally referred to our Section 11 recommendation made in October 2015 reflecting our view that the Authority needed to ensure that its governance processes were appropriate in a wider sense for the Authority as a whole and as part of its programme of cultural change and not just the areas referred to in the BV Inspection report. Consequently, in terms of 2015/16 we have considered the reporting by the Commissioners to the Secretary of State for Communities and Local Government (SoS for CLG) and the extent to which the Authority's BV action plans were reported as actions completed. We have also considered the progress in relation to our Section 11 recommendation. In their March 2016 letter to the SoS for CLG the Commissioners set out their disappointment with early progress and lack of acknowledgement of the shortcomings in the culture of the Authority and the adverse impact on how some decisions were made (prior to June 2015 when the current Mayor was elected). The Commissioners also emphasised the need to make more progress on the organisational culture piece and the time it will take for this to be successful and become embedded. We have also considered the extent to which the Authority's BV Action Plans were implemented during 2015/16. The reports submitted to Cabinet meetings in September 2015 and March 2016 clearly show that while progress was meaningful there were a significant number of actions that were not completed within 2015/16. We further consider that many of the actions will require time to become established and embedded even once the arrangements/procedures have been put in place. In relation to our Section 11 recommendation the suggested governance review remains relevant and is to be undertaken in conjunction with the other actions currently being undertaken including the programme of cultural change. We have therefore concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2015/16. We therefore anticipate issuing a qualified VFM conclusion on similar grounds to that in 2013/14 and proposed for 2014/15. A draft of our opinion covering both the financial statements and the VFM arrangemnets is included in Appendix 5.

Headlines (cont.)

Completion	At the date of this report our audit of the financial statements is nearing completion and we are targeting finalisation by the end of October. The principle matters outstanding relate to the following areas: — Cash (school bank reconciliations) — Payroll — Grants (we have recently agreed to select our sample for testing from a list of grant programmes, rather than a complete list of grants made in 2015/16 as planned originally) and related review and testing of income from property leases with the community and voluntary sector — Journals (Authority and Pension Fund). You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We will provide a draft of this representation letter to the Section 151 Officer in due course. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the following: grant payments (particularly in relation to completeness and lawfulness); and section 106 agreements (where the timescale for the use of the monies received has been exceeded). We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
Certificate	We have two objections from Local Government Electors relating to earlier years. One is in relation to parking matters and the Authority's 2013/14 financial statements. The other objection refers to the Authority's Lender Option Borrower Option loans and relates to 2014/15 (see Proposed Audit Opinion section above). In addition we have not yet completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. Until the above matters have all been resolved we will not be in a position to formally conclude the audit and issue an audit certificate.
2014/15	In relation to the 2014/15 year end, as previously reported the audit was complete subject to consideration of the impact on our signing of the LOBO objection. Guidance has now been received from the NAO in this regard and, having considered this, we anticipate being able to sign the 2014/15 financial statements and VFM opinions in the near future. We will not be in a position to issue the audit certificate closing the audit pending the consideration of the outstanding objections including the LOBO objection.

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Section three: Financial Statements

Proposed opinion and audit differences

So far we have not identified any issues in the course of the audit that are considered to be material.

We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements and the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

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Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 29 September 2016.

Audit differences

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

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £15 million. Audit differences below £750,000 are not considered significant.

We have not identified any significant misstatements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Pension fund audit

Our audit of the Fund also did not identify any significant misstatements.

For the audit of the Fund we used a materiality level of £20 million. Audit differences below £1 million are not considered significant.

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 29 September 2016.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Pension fund annual report

We have not yet completed our review of the Pension Fund Annual Report and consequently we are yet able to confirm that:

- The financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate completing this work by the time we provide our opinion on the Statement of Accounts.

Significant audit risks

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

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in June 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have not yet completed our testing of all of these areas. We have set out our evaluation following our substantive work or a position statement. There were no significant risks identified for the Pension Fund.

Property Plant and Equipment (PPE)

— 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.

— Findings

We have considered the Authority's approach to valuation of PPE with reference to accounting standards and the Code; the information provided to the valuer; reports received by the Authority from its valuer and the judgements made by the Authority in response to those reports. We have compared your valuer's assumptions to benchmarks and to assumptions used for 2014/15 for consistency and ensured that the valuer explicitly considered upward trends as well as impairments in conducting the valuations; and also whether there were material changes in valuations for asset classes valued more than 12 months ago. We also considered disposals (in relation to the BV Inspection findings and consequent Direction); and the completeness of information held on the new fixed asset system. We have no matters to bring to your attention as a result of completing this work.

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 represented the first full year of the new arrangements being in place.)

— Findings

Our work in this area is not yet complete. Our planned approach was to consider the detailed approach and systems put in place by the Council and Commissioners and to assess whether any conditions/ delegation arrangements have been implemented effectively by Authority officers. At the time of writing this report we have recently agreed to select our sample for testing from a list of grant programmes, rather than a complete list of grants made in 2015/16 as planned originally. We are also awaiting details of potential unlawful items of account where we understand that several grants were paid when the conditions set by Commissioners had not been met.

Significant audit risks

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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 undertaken of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements.

— Findings

We have tested a selection of schemes and the overall controls employed by the Authority to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process. Our testing of 27 schemes did not identify any issues in terms of balances held and monies spent during 2015/16. We noted that there are two schemes which have gone beyond the time when the s106 agreement requires the funds to have been spent. (PA/06/01439 expired October 2015 and the balance at 31 March 2016 was £3m we understand this balance has been committed to two projects which have commenced in 2016/17 and that the developer making the original payment has been dissolved; and there is one further small scheme which has gone beyond the time when the s106 agreement required the funds to have been spent (PA/02/1852 - £40,000). We understand that due to the circumstances of each scheme that there is very limited risk of the funds being lost. We have also noted a further scheme which is due to expire in January 2017 with a balance of £2.1m at 31 March 2016 where there are approved schemes in place that are due to use the balance during 2016/17. We will review the position on this scheme as part of our 2016/17 audit (PA/06/2068).

We have also considered the results of the independent review and the Authority's response. The review raised a number of recommendations for improvements, which the Authority has responded to positively. The Authority has reported that all recommendations have been implemented except those that required the implementation of a new software system which has been procured and is in the process of being implemented.

Significant audit risks

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

This section sets out our detailed findings on those risks.

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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.

— Findings

We have reviewed the actions taken by the Council which now include a requirement for all staff to complete an annual declaration. Our testing of the declarations made has not identified any issues. However, we have noted a number of concerns:

- The initial response by staff to the new requirement was slow. We understand that the Authority has now received over 90% of expected returns, which has taken 6 months and a 100% return is essential to meet the aims of the exercise;
- We understand that the Authority is satisfied that every member of staff has been identified and therefore required to complete a declaration form, but our experience elsewhere suggests that it is worthwhile obtaining further assurance on this aspect, such as from an internal audit review;
- Human Resources have provided Corporate Directors and Heads of Service with reports that identify whether submitted declarations have been authorised or rejected by line managers to help inform whether to consider further appropriate action if there are areas of concern. In view of the concerns expressed by the BV Inspection and Commissioners we would anticipate that a further level of assurance is sought as to how robust the process has been in terms of considering the declarations made and any follow up action taken; and
- There is little in the way of comprehensive training so that staff are clear what the Authority's requirements and objectives are understood clearly by staff and that they have the necessary information to complete declarations properly and to support the Authority in terms of any issues that might arise from incomplete declarations.

We have therefore reflected these points in out consideration of the implementation of our recommendation in our *ISA 260 Report 2014/15* (see Appendix 1).

Significant audit risks

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In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

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

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

Subsequently, we have revised our assessment and consider that conditional grant income (which is predominantly made up of s106 ie developers' contributions (80% of the total of £76 million)) should be considered as a risk. This work has therefore been reported within the significant audit risks for section 106 agreements earlier in this section.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in June 2016, we identified four areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing for two of the areas. The fourth area is closely related to our significant risk on grants (where our work is not yet complete). The table sets out our detailed findings or status for each area of audit focus.

Pension assets/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.

— Findings

We have:

- Confirmed that the information provided to the actuary from the Authority is reasonable;
- Reviewed the actuarial valuation and considered the disclosure implications; and
- Considered the approach adopted and assumptions made by your actuaries to benchmarks and other information available to us and to the assumptions used for 2015/16 for consistency with previous years.

No issues were noted as a result of our procedures.

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.

— Findings

As noted in the Headlines section our work in this area has not yet been completed. We plan to:

- Review and test 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 focus

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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 impacts on VFM 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.

— Findings

Our work in this area is not yet complete. Our planned approach was to consider the Authority's approach to leasing its property and the information held to support its decision making and then to test a sample of agreements to assess whether the approach to leasing is followed in practice. This area is closely linked to our work on grants and therefore will be completed at the same time.

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. Again this is an area that also impacts on VFM.

— Findings

The Council has taken considerable action with regards to the Youth Service in terms of improving its governance; spending controls; and service delivery. New senior officers have been appointed to manage the Service and it has been moved to a different Directorate to give it a greater opportunity with more of a 'fresh' start. There is a detailed action plan in place which is in the process of being implemented.

In addition the Youth Services Project Group will oversee the progress of investigations (current and future) into individuals and organisations that are known to the Youth Service from the various investigations that have been completed previously. This group will ensure that suitable pace is injected into the progress of the investigations and other arising issues enabling management within the Youth Service to conclude on historical matters and concentrate of the future of the Youth Service. The Project Group comprises senior officers from Children's Services, Human Resources, Internal Audit, Finance, Legal Services, and Communications.

Accounts production and audit process

We have noted that the quality of the accounts and the supporting working papers have been maintained.

Officers dealt efficiently with audit queries. However, the additional work and supporting information needed in relation to the BV Inspection means that the audit process has not been completed within the planned timescales.

The Authority has implemented two of the three recommendations in our ISA 260 Report 2014/15.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has maintained its financial reporting process. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2016.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in June 2016 and discussed with the Financial Accountant, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. However, the additional work and supporting information needed in relation to the BV Inspection means that the audit process has not been completed within the planned timescales.

Element	Commentary
Pension Fund Audit	The audit of the Fund was undertaken alongside the main audit. There are no specific matters to bring to your attention relating to this at this stage, but we have work on journals and completion and review procedures which still need to be done.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented two of the three recommendations in our *ISA 260 Report 2014/15*. Appendix one provides further details of the remaining recommendation.

Completion

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

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

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

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Declaration of independence and objectivity

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

In relation to the audit of the financial statements of the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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

Management representations

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

We expect to include specific representations in relation to grants, but need to complete our work in this area to determine what they will be.

Other matters

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

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

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

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has not made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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Background

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.

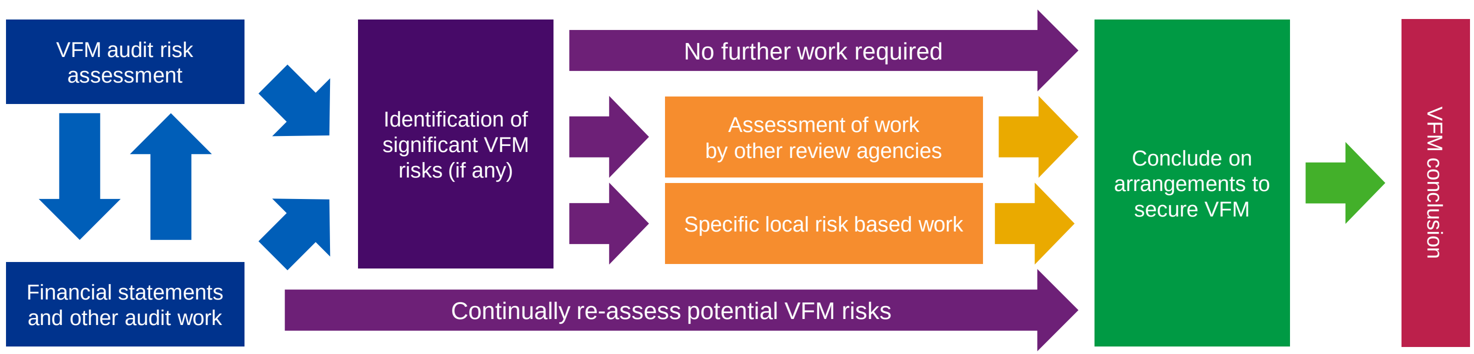
Conclusion

We have concluded that the Authority has not made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

- Informed decision making
- Sustainable resource deployment
- Working with partners and third parties



Specific VFM Risks

We have concluded that the Authority has not made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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Consideration of BV Inspection report and subsequent action plans

In seeking to satisfy ourselves that the Authority has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources, we have continued our consideration of the findings of the BV Inspection report and more specifically the Authority's progress towards implementing the action plans that it produced in response.

In relation to 2015/16 it is important to note that we are looking at the financial year as a whole when considering the VFM conclusion.

The Commissioners have reported that the Authority did not make meaningful progress in accepting the BV Inspection findings and Directions and considering how to address the concerns identified until the current Mayor was elected in June 2015. Furthermore, in their March 2016 letter to the SoS for CLG they commented that although good progress was now being made, they still felt that the Authority had wasted a significant amount of time in the immediate period after the BV Inspection Report had been published.

Consequently, in terms of our VFM conclusion our key consideration has been in relation to the progress made on the areas which led us to qualify our VFM conclusion in 2013/14 and proposed qualification for 2014/15. These areas were grant payments and connected decisions; disposal of property and the granting of leasehold interests; spending on publicity; and corporate governance arrangements in the three areas. Our proposed qualification for 2014/15 additionally referred to our Section 11 recommendation made in October 2015 reflecting our view that the Authority needed to ensure that its governance processes were appropriate in a wider sense for the Authority as a whole and as part of its programme of cultural change and not just the areas referred to in the BV Inspection report.

In terms of 2015/16 we have considered the reporting by the Commissioners to the SoS for CLG and the extent to which the Authority's BV action plans were reported as actions completed.

The Mayor's letter to the SoS CLG was positive about progress being made whilst realising that the organisational aspect in particular will take some time to become embedded.

The Commissioners' response notes their disappointment with early progress and lack of acknowledgement of the shortcomings in the culture of the Authority and the adverse impact on how some decisions were made. The Commissioners also emphasised the need to make more progress on the organisational culture piece and the time it will take for this to be successful and become embedded.

We have also considered the extent to which the Authority's BV Action Plans were implemented during 2015/16. The reports submitted to Cabinet meetings in September 2015 and March 2016 clearly show that while progress was meaningful there were a significant number of actions that were not completed within 2015/16. We further consider that many of the actions will require time to become established and embedded even once the arrangements/procedures have been put in place.

Indeed the latest Cabinet report (6 September 2016) states the following:

The Council is now in a position to report that more than 95% of the actions within the Best Value Plans are complete. More significantly, progress has been made in delivering the related outcomes and further information on this is provided below.

It is also recognised that implementing significant organisational change is a long-term, iterative process. As such, this update report also addresses issues, which fall outside of the formal Best Value Plans agreed with the Secretary of State, that have been identified by the Council or the Commissioners as matters where further work is required and underway.

Specific VFM Risks

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Conclusion of arrangements to secure value for money

The matters raised in the BV Inspection report raise concerns in relation to the adequacy of the Authority's arrangements for challenging how it secures economy efficiency and effectiveness in its use of resources in the areas highlighted above.

We are required to conclude on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources, for the whole of 2015/16. So although considerable progress is being reported, we anticipate issuing an adverse opinion in respect of the Authority's arrangements to secure value for money on similar grounds to our 2013/14 VFM conclusion and proposed 2014/15 VFM conclusion.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas;

— Continued our consideration of the Authority's actions to address issues raised by the BV Inspection report produced by PwC;

— Considered other matters brought to our attention by the Tower Hamlets Commissioners; and the DCLG; and

— Followed up on relevant issues included in our *ISA 260 Report 2014/15* presented to the Audit Committee in March 2016.

Key findings

On the previous pages we have specifically considered the progress towards implementing the BV action plans that the Authority has drawn up in response to the BV Inspection and subsequent considerations from the Commissioners appointed by the DCLG.

On the following pages we have set out the findings in respect of those areas where we identified a residual audit risk for our VFM conclusion in our Audit Plan.

Specific VFM Risks

We have identified a number of specific VFM risks.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have undertaken work in response these risks as summarised in the assessment column.

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Key VFM risk	Risk description and link to VFM conclusion	Assessment
Implementation of BV action plans and section 11 recommendation	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. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.	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 are satisfied that the steps necessary for the Authority to address the matters raised have been integrated into the Organisational Culture BV action plan. Our consideration of the progress towards implementation of the BV action plans has been set out earlier in this Section **Specific risk based work required: Yes, see earlier in this Section.** As noted earlier in this section, our consideration of the Authority's progress towards implementing the BV action plans for 2015/16 as a whole is considered to have an adverse impact on the overall VFM conclusion.

Specific VFM Risks (cont.)

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Key VFM risk	Risk description and link to VFM conclusion	Assessment
Governance in schools	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. This is relevant to the informed decision making and working with partners and third parties sub-criteria of the VFM conclusion.	The Authority has taken action to reinforce the importance of governance and the role of Governors in managing schools. It has reviewed its guidance and issued the latest guidance to schools and governors. Also training and guidance on governance arrangements has been delivered to both Governors and Schools Business Managers. The Authority is also making further enhancements to arrangements by giving direct support to those schools which have been identified in internal audit reports as consistently receiving limited assurance through additional workshops delivered by Mazars and Schools Finance. We have considered the impact/progress by liaising with Internal Audit (IA) on results of recent audits. The annual report for schools in 2014/15 showed that 9 schools received a ‘substantial’ rating, but 5 had limited assurance and 2 had nil assurance. For 2015/16 the IA annual report shows that of the 25 schools receiving an audit 21 received a ‘substantial’ assurance rating and 4 had a limited assurance. Representing a significant improvement and positive direction of travel. We have also reviewed the 2015/16 annual report for schools which sets out the findings from the reviews and common issues, although we do not consider (in view of the overall assurances given) that these are significant in overall terms for the VFM conclusion. **Specific risk based work required: Yes as per above** No adverse impact on the overall VFM Conclusion.

Specific VFM Risks (cont.)

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Medium Term Financial Strategy	Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents. At the point of our planning the Authority is estimating a small over spend (of around £1.2 million) for 2015/16. The Authority's balanced budget for 2016/17, included the delivery of £21 million of approved savings plans, and the use of £23 million from General Fund reserves. The Authority estimated that a further £58 million in savings would need to be achieved during the three years 2017/18 to 2019/20, after using £4 million of reserves (General Fund reserves were estimated to be £36 million at 31 March 2020). The Authority was 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. This is relevant to the informed decision making and sustainable resource deployment sub-criteria of the VFM conclusion.	We have reviewed overall management arrangements that the Council has for managing its financial position, including the processes to develop a robust Medium Term Financial Strategy (MTFS), 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 Council. The Authority has set a balanced budget for 2016/17 and is in the process of developing its detailed MTFS to 2020 supported by detailed outcome based budgets. The next phase is due to be reported to Members in October 2016. **Specific risk based work required: Yes, see above and more detailed commentary on the next page.** No adverse impact on the overall VFM conclusion.

VFM - Financial position

2015/16 outturn

In terms of its financial standing the Authority is reporting that the revised budget has been met. Indeed there was an under spend of £8 million in total which meant that the planned use of reserves was not required (as contingencies in the budget were not needed to be applied) and the General Fund reserve increased slightly to £72 million.

2016/17 budget

In relation to the MTFS we note that the Council has agreed a balanced budget for 2016/17. The budget includes £21 million of agreed savings and £23 million use of reserves (which would reduce General Fund reserves to £49 million).

For the £21 million of savings, this was agreed by Members in two batches £4 million in year and £17 million as part of budget setting in February 2016. All of the savings schemes were supported by detailed statements explaining what was being planned and how it would be delivered/achieved. The supporting papers also set out any changes to services; explained any equality implications and included a formal Equalities Impact Assessment (supported by an action plan for any groups affected adversely). In terms of monitoring the savings are built into base budgets and so they are monitored as part of on-going budget monitoring.

MTFS 2017 – 2020

For the period covered by the MTFS (three years from 2017 – 2020) the Authority needs to identify £58 million in savings and is only looking to use £4.5 million from General Fund reserves over this period (leaving reserves at £44 million at 31 March 2020).

The Council is using 2016/17 to look in great detail at what it does and how it does it using outcomes-based budgeting. Cabinet received an update report in September 2016 setting out progress being made and future planned reporting that would enable the Authority to make informed decisions about resource prioritisation and allocation decisions in a way that provides a stable and considered approach to service delivery and funding the priorities agreed within the Authority's Strategic Plan and takes into account relevant risks and uncertainty. Further reporting and decision making to develop a balanced budget for the three years 2017-20 will take place between now and February 2017.

Appendices

Appendix 1: Follow up of prior year recommendations

Appendix 2: Audit differences

Appendix 3: Materiality and reporting of audit differences

Appendix 4: Independence and objectivity

Appendix 5: Draft audit opinion

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2014/15*.

We re-iterate the importance of the outstanding recommendation and recommend that the matter noted from our 2015/16 consideration are addressed.

At this stage we have not drafted and agreed with officers recommendations in relation to the current year, these will be reported to the Audit Committee at a subsequent meeting, We anticipate raising some recommendations in relation to grants.

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This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	❶	**Declarations of Interest** The BV Inspection report refers to several instances where there are relationships with other parties. The BV Inspection report does not conclude as to whether these relationships represented significant concerns or were improper. However, there appears to be the potential for interests that should be declared not being so, possibly due to due to incomplete knowledge about who the Authority is doing business with, or seeking to do business with. As a minimum this gives the potential for reputational damage to the Authority. **Recommendation** The Authority should: 1. Review its policies, procedures and processes for identifying potential interests and ensuring declarations are up to date and complete; 2. Consider whether improvements can be made to ensure relevant members and officers are aware of organisations and individuals seeking to do business with or interact with the Authority; and 3. Ensure that all relevant members and officers receive at least annual training and reminders about their responsibilities and the need to ensure interest declarations are complete and up to date.	Melanie Clay and Zena Cooke December 2015	As noted in Section 3 we have noted that there are some weaknesses in the Authority's systems and approach to the new requirement for all staff to complete an annual declaration of interest. In particular these relate to completeness of records to ensure all staff have completed a return; for those staff identified to date there has not yet been a 100% return of declarations; training should be enhanced to ensure staff understand the importance of the declarations and completing them fully and accurately; obtaining further assurance about the process and consideration/ assessment of the returns received and whether any further action is needed. We will therefore continue to follow up this recommendation next year.

Follow up of prior year recommendations (cont.)

The definition of the priority ratings we use is provided on this page.

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Priority rating for recommendations					
❶	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the matters identified through the audit process.

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

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

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

Materiality and reporting of audit differences

For 2015/16 our materiality is £15 million for the Authority's accounts. For the Pension Fund it is £20 million.

We report all audit differences over £750,000 million for the Authority's accounts and £1 million for the Pension Fund, to the Audit Committee.

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Materiality

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

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in June 2016.

Materiality for the Authority's accounts was set at £15 million which equates to around 1.2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

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 misstatements of lesser amounts to the extent that these are identified by our audit work.

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750,000 for the Authority.

Where 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.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £20 million which is approximately 1.78 percent of gross assets. An individual difference could normally be considered to be clearly trivial if it is less than £1 million.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

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Requirements

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

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

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

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

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

— The related safeguards that are in place.

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

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

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

Declaration of independence and objectivity (cont.)

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

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General procedures to safeguard independence and objectivity

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the Authority audit and Pension Fund audits was £230,918 plus VAT (£300,890 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in June 2016. Additional fees will be required for the additional work we have needed to undertake relating to the BV Inspection issues and the Council's response (the additional fees to date for 2014/15 are £22,000, although this does not include dealing with the LOBO objection which we are in the process of considering).

Our scale fee for certification for the HBCOUNT is £20,327 plus VAT (£30,450 in 2014/15), and fees for other grants and claims (Teachers' Pensions Return and Capital Receipts Return) was £6,500 plus VAT.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Fee	Potential threat to auditor independence and associated safeguards in place
Conducting business intelligence research on 14 companies of interest to the Authority. The research will include identifying any links between these companies as well as their known public profile.	£36,500	**Self interest** – This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. **Self review** – The nature of this work was to conduct business intelligence research on 14 companies of interest to the Authority. The research will include identifying any links between these companies as well as their known public profile. We used information available in the public domain only. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat. **Management threat** – This work was advice and support only – all decisions were made by the Authority. **Familiarity** – This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. **Advocacy** – We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a summary of information obtained but the scope of this work falls well short of any advocacy role. **Intimidation** – not applicable
Fees	**£36,500**	
Fees as a percentage of external audit fees	**16%**	

Draft audit opinion

Independent auditor's report to the members of the London Borough of Tower Hamlets

We have audited the financial statements of the London Borough of Tower Hamlets for the year ended 31 March 2016 on pages x to x. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Resources and auditor

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's and the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Resources; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

— give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

— give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and

— have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

— the Annual Governance Statement which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or

— the information given in the Narrative Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

— any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or

— any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or

— any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

Draft audit opinion (cont.)

Conclusion on the London Borough of Tower Hamlets' arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether London Borough of Tower Hamlets had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether London Borough of Tower Hamlets put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, London Borough of Tower Hamlets had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for adverse conclusion

In considering whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources we have we have reviewed the progress made against the findings of the Best Value Inspection of the London Borough of Tower Hamlets Report (the Report) produced by PricewaterhouseCoopers LLP (PwC) for the Department for Communities and Local Government (DCLG) dated 16 October 2014 and published on 4 November 2014, as well as the evidence gathered from our own audit work.

The DCLG instructed PwC to cover specific matters as part of the Best Value Inspection. The report concluded that the Authority had not achieved the best value duty with regard to the following areas:

- The Authority's payment of grants and connected decisions;
- The disposal of property and the granting of leasehold interests; and
- Spending on publicity.

The Report also commented that the Authority's corporate governance arrangements did not appear to be capable of preventing or responding appropriately to failures of the best value duty in the areas highlighted above. Subsequently the Secretary of State for Communities and Local Government appointed independent Commissioners to undertake an executive decision-making role in relation to all grant decisions, and to oversee the work of the Authority in these areas of operation. The Commissioners also play a consultative role in the development of plans to deal with weaknesses in the processes for entering into contracts identified in the report, but are not able to issue binding directions to the Authority except in circumstances where they fail to adopt recommendations of the statutory officers.

Draft audit opinion (cont.)

These matters, taken together with comments within the Mayoral election judgment (as set out in the High Court of Justice, Queen's Bench Division, in the matter of the Representation of the People Act 1983, and in the matter of a Mayoral election for the London Borough of Tower Hamlets held on 22 May 2014) and other matters raised with us as auditors, indicate that governance processes were not operating effectively for the periods covered by these inspections and judgments.

The Authority has developed and published comprehensive action plans including a programme of cultural change (the "BV Action Plans") to address the findings of the reports detailed above. During the course of 2015/16, the Commissioners provided regular, quarterly updates to the Secretaries of State on the improvements being delivered at the Council, including detailed six monthly progress reports in September 2015 and March 2016.

We have considered the extent to which the Authority's BV Action Plans were implemented during 2015/16. The reports submitted to Cabinet meetings in September 2015 and March 2016 clearly show that while progress was meaningful, particularly in the latter part of the year, there were a significant number of actions that were not completed within 2015/16. Whilst we note the progress made we also consider that many of the actions will require time to become established and fully embedded even once the arrangements/procedures have been put in place.

In October 2015, in relation to our audit for the year ended 31 March 2014, we raised a recommendation under section 11(3) of the Audit Commission Act 1998 that the Authority should undertake a detailed review of its governance processes to satisfy itself that they were appropriate and operating effectively. This governance review is to be undertaken in conjunction with the other actions currently being undertaken including the programme of cultural change. The reasons for recommending such a review in respect of the year ended 31 March 2014 are equally applicable to our consideration of the adequacy of the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2016.

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are not satisfied that, in all significant respects, London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

Due to matters brought to our attention by local authority electors and work on the WGA Return not being completed by the x Xxx 2016

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of one matter brought to our attention by a local authority elector under the Audit Commission Act 1998, relating to the year ending 31 March 2014; and one matter brought to our attention by a local authority elector under the Audit Commission Act 1998, relating to the year ending 31 March 2015. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on arrangements to secure value for money.

In addition we have not yet completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Andrew Sayers

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

x Xxx 2016

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to ‘Regulatory Information’ at www.kpmg.com/uk

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Non-Executive Report of the: **Audit Committee** 31st January 2017	TOWER HAMLETS
Report of: Zena Cooke – Corporate Director of Resources	**Classification:** Unrestricted
Draft Accounting Policies 2016-17 and 2017-18	

Originating Officer(s)	Kevin Miles –Chief Accountant
Wards affected	All

Summary

This report presents the accounting policies that will be implemented during the financial year 2016-17 and reflected in the published Statement of Accounts for 2016-17.

Appendix A includes the draft accounting policies for 2016-17, it also summarises the main content of the policies and highlights recent changes. Any further changes to accounting regulations may require the policies to be changed during 2016-17. Significant changes to the policies tabled as part of the draft financial statements for 2015-16 have been highlighted.

These Accounting Policies will also be adopted for 2017-18 and the specific detail and wording will be included as the information becomes available.

Recommendations:

The Audit Committee is recommended to:

1. Approve the accounting policies and are invited to comment.

1. REASONS FOR THE DECISIONS

1.1 It is recommended by external audit and in line with best practice that the proposed Accounting Policies being used to prepare the financial statements are approved by the Audit Committee.

2. ALTERNATIVE OPTIONS

2.1 The Committee may choose to approve all, some or none of the Accounting Policies.

3.0 DETAILS OF REPORT

3.1 Background

3.1.1 The Council's Accounting Policies are the specific principles, bases, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies are disclosed as note 1 to the annual accounts.

3.1.2 The finance team review the policies each year to ensure that they are in line with the accounting standards as well as being appropriate and relevant to the council. This also helps to remove unnecessary detail which in turn will aid readers to better understanding the Statement of Accounts.

3.1.3 It is generally accepted best practice to circulate the draft accounting policies to the Audit Committee for approval prior to the preparation of the daft accounting statements.

3.2 Framework

3.2.1 The requirement to include Accounting Policies is taken from the Cipfa Code of Practice for Local Authority Accounting 2016/17 (the Code), and states that *'Authorities shall select accounting policies, and account for changes in accounting policies, changes in accounting estimates and errors in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors'*

3.2.2 IAS 8 also requires entities to disclose the expected impact of new standards that have been issued but not yet adopted. Future editions of the Code may therefore prescribe retrospective disclosure requirements relating to changes to accounting policies.

3.2.3 The proposed accounting policies are largely unchanged, bar minor cosmetic changes, from the one used in the 2015-16 accounts and although there will be significant changes brought about by the inclusion of the Highways Network Asset in 2017-18 (originally intended to be included in the 2016-17 financial statements), the council is not be required to change their accounting policies for the 2016-17 financial year.

3.2.4 The full schedule of draft Accounting Policies can be found in Appendix ‘1’

3.2.5 The Accounting Polices (including the new requirement for the Highways Network Asset Policy) will be also be adopted for 2017/18 subject to any amendments arising from the ongoing consultation process.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The Chief Finance Officer has been consulted in the preparation of this report and has no additional comments to make.

5. LEGAL COMMENTS

5.1 As stated in paragraph 3.2.1 of this report, the requirement to include Accounting Policies is taken from the Cipfa Code of Practice for Local Authority Accounting 2016/17.

5.2 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. Applying Accounting Policies to the production and presentation of the annual Statement of Accounts contributes towards demonstrating that the Council is meeting this duty.

5.3 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.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 There are no ‘One Tower Hamlets’ considerations contained in this report.

7. BEST VALUE (BV) IMPLICATIONS

7.1 There are no ‘Best Value’ implications contained in this report.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There are no actions contained in this report impacting on the ‘Greener Environment’ agenda.

9. RISK MANAGEMENT IMPLICATIONS

9.1 This report details the accounting policies by which the final accounts will be prepared and presented, this is in line with current best practice, and endorsed by external audit. Failure to adhere to these policies could result in the authority not meeting its legal requirement to produce compliant financial statements.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no 'Crime and Disorder' implications contained within this report.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Draft Accounting Policies 2016-17.

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- None.

Officer contact details for documents:

- Brian Snary – Financial Accountant ext. 5323

Draft Accounting Policies 2016-17

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016-17 financial year and its position at the year-end of 31st March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 and the *Service Reporting Code of Practice (SeRCOP) 2016-17*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of long-term assets and financial instruments.

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council including the group accounts for the year ending 31st March 2017 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the:

- Materiality concept means that information is included where the information is of such significance as to justify its inclusion.
- Accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
- Going concern concept assumes that the Council will continue in operational existence for the foreseeable future
- Primacy of Legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. This includes the accounting for fees, charges and rents due from

customers; these are accounted for as income at the date the Council provides the relevant goods or services.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet if material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimis of £10,000 below which items of income and expenditure are not required.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice. Cash equivalents are investments that mature no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand within the short-term and form an integral part of the Council's cash management.

4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise or not material) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in Accounting Policy:

Future Changes in Accounting Policy - The Code of Practice on Local Council Accounting in the United Kingdom 2016-17 (the Code) has introduced several changes in accounting policies which will be required from 1st April 2017.

The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) takes effect from 1 April 2017. This will require a Highways Network Asset to be recognised in the balance sheet at depreciated replacement cost. This will replace items of infrastructure such as roads and bridges currently shown in the balance sheet at depreciated historic cost. This will be a significant material change, likely to result in a revaluation gain which will increase the value of Property, Plant and Equipment on the balance sheet. New accounting standards usually require retrospective changes to the prior year's accounts, however this change does not require retrospective restatement.

Other changes – Consultation is underway on the following issues that will be included in the 2017-18 Code.

Telling the Story of Local Authority Financial Statements - for 2017-18 CIPFA /LASAAC have switched the focus of the code from being prescriptive on the list of account policies and moves towards encouraging local authorities to consider the use of innovative approaches to tell their own stories in the presentation of their accounting policies, financial performance and cash flows.

This year's consultation also focuses on going concern reporting, reporting transaction costs for pension fund investments and some technical changes to IAS 7 Statement of Cash Flows and IAS 12 Income Taxes.

6. Charges to Revenue for Long-term Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the cost of holding long-term assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation losses (general fall in prices across the board) and impairment losses (fall in price specific to an asset) on tangible non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Council is not required to raise Council Tax to fund depreciation, revaluation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision (MRP) relating to non-housing assets has been calculated for 2016-17 in accordance with Option 1 (the Regulatory Method) set out in the statutory guidance on MRP.

7. Employee Benefits

a. Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. If material, an accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b. Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy and a reliable estimate can be made of the cost.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

c. Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

All the schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The DfE set the teacher's pension contribution rate.

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

The Council's wholly owned subsidiary, Tower Hamlets Homes Limited (THH), is a Local Government Pension Scheme Employer in accordance with the Local Government Pension Scheme (Amendment) Regulations 2002. The Council has indemnified THH in respect of all liabilities that have arisen or may arise from its pension obligations.

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and estimates of projected earnings for current employees.

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iBoxxSterling Corporates Index, AA over 15 years) as at 31st March 2017.

Assets attributable to the Council are included in the Balance Sheet at their fair value. Quoted or unitised securities are valued at current bid price; unquoted securities on the basis of professional estimate; and property at market value.

The change in the net pension liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- expected rate of return (on assets) – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- gains and losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, credited or debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.
- contributions paid to the pension funds – cash paid as employer's contributions to the pension funds.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees as calculated under IAS19.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

a. those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such material events
b. those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect, or a statement that an estimate cannot be reliably made.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue.

9. Financial Instruments

a. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

b. Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited / debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

10. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

11. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (revenue grants) or Capital Grants Receipts in Advance account (capital grants). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Unapplied revenue grants without repayment conditions are shown as earmarked reserves.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12. Heritage assets

The Code of Practice on Local Authority Accounting in the United Kingdom requires material heritage assets held by the Council to be disclosed.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £9.3 million at 31 March 2017. This valuation is based on valuations for art and museum collections where the asset has a material value. The council holds information on the value of an item of material value within the art collection (one painting), two public sculptures and civic regalia (value held for insurance purposes).

Valuations are made by any method that is appropriate, including reference to sale proceeds of similar items by same artist to demonstrate values are clearly under materiality values. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. The Council has four heritage assets that have material values, these values are reviewed periodically, however the real value would only be established upon sale as valuations on assets of this nature are subjective.

Where the Council has information on the cost or value of a heritage asset the Council includes that value in its balance sheet. Where this information is not available and the historical cost information cannot be obtained the asset is excluded from the balance sheet.

Heritage assets (other than operational heritage assets) shall normally be included in the balance sheet at their current value where material. The Council has a materiality threshold of £50,000 for considering heritage assets for valuation. Where it is not practical to obtain a valuation at a reasonable cost heritage assets are valued at cost where known. Most heritage assets owned by the council have an historical interest to the Borough, but would not have material market value.

Operational heritage assets (i.e. those that in addition to being held for their heritage characteristics are also used for other activities or provide other services) are accounted for as operational assets and valued in the same way as other assets of that type.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a material heritage asset or doubts arise to its authenticity the value of the asset would be reviewed.

13. Interests in Companies and Other Entities

The Council has an interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council but is not considered material and does not require group accounts to be prepared (a summary of this interest can be found in note 45). The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

14. Inventories and Long Term Contracts

Inventories (stocks) are included in the Balance Sheet at the lower of cost and net realisable value. Where material, the council would select a valuation process appropriate for the asset.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

15. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

The Council as a Lessee

The Council has reviewed its leases in detail and has determined that, except for PFI agreements, there are a small number of finance leases with immaterial asset values, so the agreement costs are charged to revenue. For finance leases (including the PFI assets), the accounting policy is as follows;

a. Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible property, plant or equipment asset – the liability is written down as the rent becomes payable), and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

b. Operating Leases

Leases that do not meet the definition of finance leases as described above are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account within the Comprehensive Income and Expenditure Statement on an equalised basis over the term of the lease, to reflect the economic benefits consumed over the life of the lease, irrespective of fluctuations in annual payments.

The Council as a Lessor

The council has some operating leases as a lessor; the accounting policy is as follows:

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

16. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016-17 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – costs not attributable to services such as depreciation and impairment losses chargeable on non-operational properties

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

17. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The de minimus level above which expenditure on tangible property, plant and equipment assets is classified as capital is £50,000 except where the expenditure is financed by grants or contributions; or where lesser amounts on the same asset accumulate above that level.

Measurement
Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
  Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value – this is commonly used as a basis for valuing vehicles, plant and equipment.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.
Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).
Deprecation is calculated on the following bases:

- **dwellings** - equivalent to the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- **other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer
- **vehicles, plant, furniture and equipment** – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. For equipment, over five years
- **infrastructure** – straight-line allocation over 40 years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately if they have a materially different remaining life from the underlying asset.

Any assets with a depreciable value below £1 million are not considered material for containing separate components. Separate components will be considered in an asset with a value greater than £1 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

Disposals and Non-Current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of long-term assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

18. Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment long-term assets needed to provide services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.The Council is party to two PFI contracts in respect of schools which terminate in 2027 and 2029.

The original recognition of these long-term assets at current value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – recognised as long-term assets on the Balance Sheet if capital in nature

MRP policy for PFI schemes - a minimum revenue provision is charged based on a share of the charge paid within the above contracts - this represents repayment of the contract liability for the long-term assets within the contract.

There is also a third PFI contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. As the Council does not pay for this scheme, there is no MRP chargeable.The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance, both of which are written down over the term of the contract.

19. Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, if the Council were to be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service account.

Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant revenue account if it is virtually certain that reimbursement will be received if the Council settles the obligation.

b. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 45 to the accounts.

c. Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

20. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement of Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the relevant service revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for long-term assets, financial instruments, retirement and employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

The Council treats transfers from the insurance reserve as above the line income to services rather than below the line transfers between reserves. This is a deviation from the Accounting Code of Practice but does not have a material effect on the financial statements.

21. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement of Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

22. Fair value measurement

The authority measures some of its non-financial assets such as surplus assets and asset held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

23. Value added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

24. Collection Fund

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax, Business Rate Supplements (BRS) and Non-Domestic Rates (NDR). This account receives income on behalf of the Council, Central Government and its other preceptor the Greater London Authority (GLA).

Collection Fund income for the year is the Council's accrued income for the year and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included within the Movement of Reserves Statement.

The cash collected by the Council from Council Tax, BRS & NDR debtors belongs proportionately to the billing authority, Central Government and the preceptors. This results in a debtor / creditor position between the Council, Central Government and preceptors for the difference between the cash collected from Council Tax, BRS & NDR debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax & NNDR arrears and impairment for bad debts, Council Tax & NDR over payments and prepayments and the debtor/ creditor from the preceptors.

The Council's share of net cash collected from Council Tax & NDR debtors in the year is included within the Cash Flow Statement. The difference between the major preceptors' share of net cash collected and amounts paid to the precepting authorities is included in the net cash-flows for financing activities.

The amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Central Government & GLA or has been overpaid to the Central Government & GLA on the Balance Sheet date.

There are a number of NDR appeals outstanding that date back to 2005. These are to be heard by the Government's external Valuation Office. A provision has been raised based on an estimate of the income from a lower valuation

25. Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its second phase which commenced on 1

April 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

26. Community Infrastructure Levy

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

27. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

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Audit Committee **31st January 2016**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director Resources	**Classification:** Unrestricted
Treasury Management Strategy Statement For 2017-18	

Originating Officer(s)	Bola Tobun - Investment & Treasury Manager
Wards affected	All wards

Summary

1) The Council is required by legislation and guidance to produce three strategy statements in relation to its treasury management arrangements. The three statements are:

   a) a policy statement on the basis of which provision is to be made in the revenue accounts for the repayment of borrowing – Minimum Revenue Provision (MRP) Policy Statement;

   b) a Treasury Management Strategy Statement which sets out the Council's proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities; and

   c) an annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2) This report also deals with the setting of Prudential Indicators for 2017-18, which ensure that the Council's capital investment decisions remain affordable, sustainable and prudent; the proposed indicators are detailed in Appendix 1. Under of the government's self-financing arrangements for the Housing Revenue Account (HRA) there are specific indicators relating to HRA capital investment.

3) The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) which requires the following:

   a) Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities (Appendix 4);

   b) Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

   c) Approval by Full Council of Minimum Revenue Provision Policy, an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and prudential indicators for the year ahead together with arrangements

for a Mid-year Review Report and an Annual Report covering activities during the previous year;

d) Clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. For this Council the delegated body is the Audit Committee. The scheme of delegation for treasury management is shown in Appendix 5.

4) Officers will report details of the Council's treasury management activity to the Audit Committee at each of its meetings during the year. Additionally, a mid-year and full-year report will be presented to Full Council. More detailed reporting arrangements are shown in Appendix 6.

5) The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required for members of the Audit Committee who are charged with reviewing and monitoring the Council's treasury management policies. The training of treasury management officers is also periodically reviewed and enhanced as appropriate.

Recommendations

It is recommended that the Audit Committee to note the report and approve for submission to Full Council to:

i) Adopt the following policy and strategies:

   a) The Minimum Revenue Provision Policy Statement set out in section 2 at annex A attached to this report;

   b) The Treasury Management Strategy Statement set out in sections 5 & 6 at annex A attached to this report;

   c) The Annual Investment Strategy set out in section 7 at annex A attached to this report, which officers involved in treasury management, must then follow;

ii) Approve the prudential and treasury management indicators as set out in appendix 1 of annex A attached to this report.

iii) Delegate authority to Corporate Director Resources to use alternative forms of investment, should the appropriate opportunity arise to use them, and should it be prudent and of advantage to the Council to do so. This delegated authority is subject to prior consultation with the Lead Member for Corporate Finance on any possible use of these instruments.

1 REASONS FOR DECISIONS

1.1 It is consistent with the requirements of treasury management specified by CIPFA, to which the Council is required to have regard under the Local Government Act 2003 and regulations made under that Act, for the Council to produce three strategy statements to support the Prudential Indicators which ensure that the Council's capital investment plans are affordable, sustainable and prudent. The three documents that the Council should produce are:

- Minimum Revenue Provision Policy Statement
- Treasury Management Strategy, including prudential indicators
- Investment Strategy

2 ALTERNATIVE OPTIONS

2.1 The Council is bound by legislation to have regard to the CIPFA requirements for treasury management. 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 the Council's capital investment plans are affordable, sustainable and prudent.

2.2 The strategies and policy statement put forward in the report are considered the best methods of achieving the CIPFA requirements. Whilst it may be possible to adopt variations of the strategies and policy statement, this would risk failing to achieve the goals of affordability, sustainability and prudence.

3. BACKGROUND

3.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity primarily before considering investment return.

3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

3.3 CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3.4 **REPORTING REQUIREMENTS** -The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

I. **A treasury management strategy statement** (this report) – it covers:
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the capital plans (including prudential indicators);
   - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - an investment strategy (the parameters on how investments are to be managed).

II. **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

III. **A treasury outturn report** – This provides details of annual actual prudential and treasury indicators and annual actual treasury operations compared to the annual estimates within the strategy.

3.5 The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and officers will ensure that undue reliance is not placed upon the external service providers.

3.6 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members' responsible for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

The 2016/17 Strategy

3.7 The Strategy for 2016/17 was approved by Full Council in February 2016 and set the following objectives:-

a) Given the large cash balances and the strain in identifying opportunities to lend at suitable rates within the counterparty list, the term/duration of investments was extended from 3 years to 5 years for RBS.

b) Investing up to £50m of core cash for over 1 year if rates were to improve.

c) The use of core cash for internal borrowing if not used for longer term investments.

Current Investment Position and Performance

3.8 Investments over 1 year is standing at £20m and were all invested with Royal Bank of Scotland all maturing by September 2018.

3.9 The Council has not borrowed short or long term to date.

3.10 The Council's budgeted investment return of £2.7m for 2016/17, with average rate of return 0.9% for average portfolio balances of £300m. Due to the outcome of BREXIT vote, at the MPC meeting of August 2016, the base rate was cut from 0.50% to 0.25% to stimulate the economy. For this reason it has been impossible to earn budgeted investment interest rate for this financial year. Below table show the position of the investment income earned for this financial year to 31 December 2016.

Benchmark (Average 7 day LIBID)	Investment interest Earned	Average Cash Balance	Investment Interest Earned
0.23%	0.625%	£400m	£2.5m

3.11 The Council has investment deposit of £30m outstanding with a part nationalised banking group, Royal Bank of Scotland. Unfortunately RBS failed Bank of England (BoE) stress tests and was found as the worst prepared out of all the UK's biggest lenders to cope with another financial crisis. However the results forced RBS to devise plans to bolster its balance sheet by £2bn through cost cuts and shedding assets. Under the "very severe" tests, banks had to be able to handle a house price crash in the UK and a global recession. The BoE found Barclays and Standard Chartered also missed key hurdles but had already taken steps to cope. RBS, which is still 73% owned by the government after its bailout during the 2008 financial crisis, said it had "agreed a revised capital plan to improve its stress resilience". Members will be updated about the position as deemed necessary.

<u>TREASURY MANAGEMENT STRATEGY FOR 2017/18</u>

3.12 The strategy for 2017/18 covers two main areas:

Capital issues

- the minimum revenue provision (MRP) policy;
- the capital plans and the prudential indicators.

Treasury management issues

- prospects for interest rates;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- service/policy investments.

3.13 The above elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

Developing the Strategy for 2017/18

3.14 In formulating and executing the strategy for 2017/18, the Council will continue to have regard for the DCLG's guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectional Guidance Notes.

3.15 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

3.16 The Council will also achieve optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to on lend and make a return is unlawful and the Council will not engage in such activity.

3.17 The Council, in conjunction with its treasury management advisor, Capita Asset Services, will use Fitch, Moodys and Standard and Poor's ratings to derive its credit criteria. All credit ratings will be monitored daily. The Council is alerted to changes in ratings of all agencies through its use of Capita's creditworthiness service.

3.18 If a downgrade means the counterparty or investment fund no longer meets the Council's minimum criteria, its use for further investment will be withdrawn immediately. If funds are already invested with the downgraded institution, a decision will be made by the Corporate Director Resources whether to withdraw the funds and potentially incur a penalty.

3.19 If an institution or fund is placed under negative rating watch (i.e. there is a probability of a rating change in the short term and the likelihood of that change being negative) and it is currently at the minimum acceptable rating for placing investments, no further investments will be made with that institution.

3.20 The Corporate Director Resources will have delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Capita Assets Services (the Council's advisors) or from another reliable market source.

3.21 The minimum Fitch credit ratings for the Council's investment policy:

Short Term: 'F1' the same criteria as last year

Long Term: 'A-' a notch down from last year criteria 'A'

3.22 Other market intelligence will also be used to determine institutions' credit worthiness, such as financial press, financial broker advice and treasury management meetings with other authorities, e.g. London Treasury Officers Forum. If this information shows a negative outcome, no further investments will be made with that body.

3.23 The strategy will permit the use of unrated building societies or challenger banks with assets in excess of £1.5bn for investment purposes.

3.24 The strategy proposes the continued use of core cash from £50m up to £100m to be held for longer term investment of over one year, if the rates are appealing.

3.25 The cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cash flow model and current market and economic conditions;

a) Liquidity is maintained by the use of overnight deposits, MMF and call accounts;

b) The minimum amount of short-term cash balances required to support monthly cash flow management is £75 million;

c) The upper limit for investments longer than one year is £100 million;

d) The maximum period for longer term lending is 5 years;

e) All investment with institutions and investment schemes is undertaken in accordance with the Council's creditworthiness criteria as set out at section 7 of annex A attached to this report;

f) More cautious investment criteria are maintained during times of market uncertainty;

g) All investment with institutions and investment schemes is limited to the types of investment set out under the Council's approved "Specified" and "Non-Specified" Investments detailed at section 7 of annex A, and that professional advice continues to be sought where appropriate;

h) All investment is managed within the Council's approved investment/asset class limits.

3.26 To delegate authority to Corporate Director Resources to use alternative forms of investment, should the appropriate opportunity arise to use them, and should it be prudent and of advantage to the Council to do so. This delegated authority is subject to prior consultation with the Lead Member for Corporate Finance on any possible use of these instruments.

Capital Programme and Prudential Borrowing

3.27 The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £m	2015/16Actual	2016/17 Revised Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	26.620	46.572	74.178	56.997	34.900
HRA	66.359	89.345	77.720	83.444	0.000
Total	**92.979**	**135.917**	**151.898**	**140.441**	**34.900**
Capital expenditure £m	**2015/16 Actual**	**2016/17 Revised**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**

		Estimate			
Financed by:					
Grant	(50.986)	(23.619)	(32.480)	(22.680)	(28.150)
Major Repairs Allowance	(28.319)	(40.161)	0.000	0.000	0.000
Schools Contribution	0.000	(0.969)	(1.192)	0.000	0.000
Capital Receipts	(0.841)	(23.321)	(21.150)	(15.568)	0.000
S106 (Developers Contributions)	(6.087)	(16.943)	(35.812)	(26.817)	0.000
Direct Revenue Financing	(6.600)	(20.312)	(56.943)	(0.750)	0.000
Total Financed	**(92.833)**	**(125.325)**	**(147.577)**	**(65.815)**	**(28.150)**
Prudential Borrowing	**0.145**	**10.592**	**4.321**	**74.626**	**6.750**

3.28 As part of the development of the prudential indicators attached as Appendix 1, which form part of the treasury management strategy, the Council must consider the affordability of its capital programme. In the past the programme has been financed by the use of capital resources such as receipts from asset sales and grants. The affordability of the programme is therefore calculated by the lost revenue income from the possible investment of the resources.

3.29 As shown in table above, there is a need to borrow up to £4m for 2017/18, £75m for 2018/19 and £7m for 2019/20 for the financing of capital expenditure as included in the current capital programme and the current prudential indicators. If the Council is to borrow, the affordability of the capital programme has been included in assessing the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

3.30 The current long term borrowing rate from the Public Works Loan Board is 2.90% for 25 years. Were the Council to temporarily borrow the necessary resources from its own cash balances rather than complete a further one year investment it would save the equivalent of 2.3% of the amount borrowed. The affordability of the capital programme has been calculated based upon the assumption that internal borrowing would occur initially.

3.31 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash from the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

3.32 Against this circumstantial and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Corporate Director Resources and her officers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

3.33 Should rates move quicker than the forecast predicts, the current and proposed strategies do allow the Corporate Director Resources to take advantage of external borrowing. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.34 The assumption is to borrow up to a maximum of £4m for 2017/18 and £75m for 2018/19, through the most economically advantageous method, as decided by the Corporate Director Resources, from: internal borrowing of core cash balances; PWLB loans; or other reputable sources of lending.

3.35 In summary the Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -

a) The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.

b) Temporary borrowing from the money markets or other local authorities

c) PWLB variable rate loans for up to 10 years

d) Short dated borrowing from non PWLB below sources

e) Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

f) PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

3.36 The Council will continue to borrow in respect of the following:

a) Maturing debt (net of minimum revenue provision).

b) Approved unsupported (prudential) capital expenditure.

c) To finance cash flow in the short term.

Investment Return Budget to 2019/20

3.37 A cash flow projection up to March 2020 has been created reflecting the spending proposals in the Budget Strategy 2017/18 onwards. The cash flow projection and the interest rates forecast shows that anticipated investment income of £2.6m for 2016/17, based on average cash balance of £400m and average investment return of 0.65%. The anticipated investment income of £1.6m with average cash balance of £350m is budgeted for 2018/19 and £1.2m with average cash balance of £300m for 2019/20. The Council may need to accept a higher level of risk in order to achieve these targets, whilst maintaining due regard for security of capital and liquidity.

3.38 With reference to the proposal to use internal borrowing to finance the capital programme, as set out in the Capital Programme and Prudential Borrowing in annex A, the investment income suggested by the cash flow projection may be provided in part from internal charges or through the surplus generated by commercialisation projects.

Minimum Revenue Provision 2017/18

3.39 Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The total debt is identified as the capital financing reserve and ensures that the Council includes external and internal borrowing along with other forms of financing considered to be equivalent to borrowing.

3.40 The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure, although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

3.41 It is recommended that because of budget constraints in the medium term the adoption of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR) as the basis of the Councils MRP relating to supported borrowing

3.42 The Council will use the asset life method for the calculation of the Minimum Revenue Provision on all future unsupported borrowing.

3.43 Council could utilise the resources invested in expenditure on key priority outcomes. However the core cash held by the Council is either set aside for future expenditure, such as the capital programme, or held as a form of risk mitigation, such as the minimum level of revenue balances. To utilise these resources for alternative projects would put the Council at future risk should an unforeseen event occur.

Other Treasury Management Issue

3.44 We recently responded to the Financial Conduct Authority (FCA) consultation on implementation of MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MiFID II), as the FCA is pursuing to reclassify Local Authorities (LAs) as retail investors rather than the current acquired professional status; this directive will be effective from 3 January 2018. We therefore have responded to this consultation to highlight Tower Hamlets concerns as the imposition of automatic retail status on local authorities (LAs) will have serious consequences for the effective implementation of pension fund investment strategies and the general treasury management function.

3.45 For example we currently use money market funds and other instruments through brokers such as gilts and corporate bonds. If the FCA classified LAs as retail investors, the process to "opt up" to professional status in order to use these instruments will be administratively burdensome for us. It will result in authorities having to go through a time consuming process with each lending or borrowing counterparty.

3.46 And also the directive could affect activity such as short term borrowing between local authorities. This is particularly important to LAs who have adopted an internal borrowing strategy and who are using short term borrowing from other local authorities as a means of supplementing the internal borrowing strategy.

COMMENTS OF THE CHIEF FINANCIAL OFFICE

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

5. **LEGAL COMMENTS**

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

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

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

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

5.5 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority’s borrowing, investments or capital expenditure, or for determining the authority’s minimum revenue provision, is a matter that should not be the sole responsibility of the authority’s executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Full Council.

5.6 The report sets out the recommendations of the Corporate Director Resources in relation to the Council's minimum revenue provision, treasury management strategy and its annual investment strategy. The Corporate Director Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

5.7 When considering its approach to the treasury management matters set out in the report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty).

6 ONE TOWER HAMLETS CONSIDERATIONS

6.1 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities and achieving One Tower Hamlets. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

7.2 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

8 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9 RISK MANAGEMENT IMPLICATIONS

9.1 There is inevitably a degree of risk inherent in all treasury activity.

9.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

9.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.

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

10 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

ANNEX & APPENDICES

ANNEX

Annex A – Treasury Management Strategy Statement (Working Document) for 2017-18

APPENDICES

Appendix 1 – Prudential and Treasury Indicators

Appendix 2 – Definition of Fitch Credit Ratings

Appendix 3 – Counter Party Credit Rating List

Appendix 4 – Treasury Management Policy Statement

Appendix 5 – Treasury Management Scheme of Delegation

Appendix 6 – Treasury Management Reporting Arrangement

Appendix 7 – Glossary

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

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
	Bola Tobun, x4733, Mulberry Place

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Annex A

Working Document

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

London Borough of Tower Hamlets
2017/18

1. **BACKGROUND**

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity primarily before considering investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

1.3 CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 **REPORTING REQUIREMENTS** -The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

I. **An annual treasury management strategy statement** (this report) – it covers:
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the capital plans (including prudential indicators);
   - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - an investment strategy (the parameters on how investments are to be managed).

II. **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

III. **A treasury outturn report** – This provides details of annual actual prudential and treasury indicators and annual actual treasury operations compared to the annual estimates within the strategy.

1.5 **SCRUTINY** - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is being undertaken by the Auditee Committee and or Cabinet.

1.6 **Treasury management consultants** - The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and officers will ensure that undue reliance is not placed upon the external service providers.

1.7 **Training** - The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.8 **TREASURY MANAGEMENT STRATEGY FOR 2017/18**

The strategy for 2017/18 covers two main areas:

Capital issues

- the minimum revenue provision (MRP) policy;
- the capital plans and the prudential indicators.

Treasury management issues

- prospects for interest rates;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- service/policy investments.

1.9 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

2. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

2.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP).

2.2 The Department of Communities and Local Government (DCLG) require Councils to establish a policy statement on the MRP and has published guidance on the four potential methodologies to be adopted.

2.3 The guidance distinguishes between supported borrowing which relates to assumed borrowing which is incorporated into the Government's Formula Grant calculation and consequently has an associated amount of government grant and unsupported borrowing. Unsupported borrowing is essentially prudential borrowing the financing costs of which have to be met by the Council locally.

2.4 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made pending finalisation of transitional arrangements following introduction of Self-Financing.

2.5 The DCLG guidance provides two options for the calculation of the MRP associated with each classes of borrowing.

2.6 The two options for the supported borrowing are variants of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR). The two options are:

- **Option 1** (Regulatory Method): To continue the current statutory calculation based on the gross CFR less a dampening factor to mitigate the impact on revenue budgets of the transition from the previous system. This calculation is further adjusted to repay debt transferred to the Council when the Inner London Education Authority (ILEA) was abolished.
- **Option 2** (Capital Financing Requirement Method): The statutory calculation without the dampener which will increase the annual charge to revenue budget.

2.7 The options purely relate to the timing of debt repayment rather than the gross amounts payable over the term of the loans. The higher MRP payable under option 2 will accelerate the repayment of debt.

2.8 It is recommended that because of budget constraints in the medium term the existing statutory calculation with the ILEA adjustment be adopted as the basis of the Councils MRP relating to supported borrowing.

2.9 The guidance provides two options for the MRP relating to unsupported borrowing. The options are:-

- **Option 3** (Asset Life Method): To repay the borrowing over the estimated life of the asset with the provision calculated on either an equal instalment or annuity basis. This method has the advantage of simplicity and relating repayments to the period over which the asset is providing benefit.
- **Option 4** (Depreciation Method): A calculation based on depreciation. This is extremely complex and there are potential difficulties in changing estimated life and residual values.

2.10 It is recommended that option 3 is adopted for unsupported borrowing.

2.11 The Council is required under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to determine for each financial year an amount of minimum revenue provision which it considers to be prudent.

2.12 **It is proposed that the Council makes Minimum Revenue Provision using Option 1 (Regulatory Method) for supported borrowing and Option 3 (Asset Life Method) for unsupported borrowing.**

THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

3.1 Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

3.2 **Capital expenditure** - This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2015/16 Actual	2016/17 Revised Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Adults' Services	0.202	7.442	7.018	1.591	0.000
Children's Services	13.893	17.749	28.259	25.445	17.250
Communities, Localities & Culture	6.673	8.691	20.054	12.883	16.393
Building Schools for the Future	(0.058)	0.290	0.977	0.000	0.000
Development & Renewal (Non Housing)	2.328	3.310	4.778	0.321	0.000
Corporate	2.393	7.783	11.335	15.000	0.000
Housing – Non HRA	1.189	1.307	1.757	1.757	1.257
Total Non-HRA	**26.620**	**46.572**	**74.178**	**56.997**	**34.900**
Housing - HRA	66.359	89.345	77.720	83.444	0.000
Total HRA	**66.359**	**89.345**	**77.720**	**83.444**	**0.000**
Total	**92.979**	**135.917**	**151.898**	**140.441**	**34.900**

3.3 **Other long term liabilities** - The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

3.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £m	2015/16Actual	2016/17 Revised Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	26.620	46.572	74.178	56.997	34.900

HRA	66.359	89.345	77.720	83.444	0.000
Total	**92.979**	**135.917**	**151.898**	**140.441**	**34.900**
Capital expenditure £m	**2015/16 Actual**	**2016/17 Revised Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Financed by:					
Grant	(50.986)	(23.619)	(32.480)	(22.680)	(28.150)
Major Repairs Allowance	(28.319)	(40.161)	0.000	0.000	0.000
Schools Contribution	0.000	(0.969)	(1.192)	0.000	0.000
Capital Receipts	(0.841)	(23.321)	(21.150)	(15.568)	0.000
S106 (Developers Contributions)	(6.087)	(16.943)	(35.812)	(26.817)	0.000
Direct Revenue Financing	(6.600)	(20.312)	(56.943)	(0.750)	0.000
Total Financed	**(92.833)**	**(125.325)**	**(147.577)**	**(65.815)**	**(28.150)**
Prudential Borrowing	**0.145**	**10.592**	**4.321**	**74.626**	**6.750**

3.5 **The Council's borrowing need (the Capital Financing Requirement)** - The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The Council is asked to approve the CFR projections below:

£m	**2015/16 Actual**	**2016/17 Revised Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Capital Financing Requirement					
CFR – housing	75.583	83.266	83.533	148.858	146.309
CFR – non housing	187.005	181.143	176.459	177.063	177.699
Total CFR	**262.588**	264.408	**259.993**	**325.921**	**324.008**
Movement in CFR		**1.820**	**(4.416)**	**65.929**	**(1.914)**

Movement in CFR represented by					
Net financing need for the year (above)	0.145	10.592	4.321	74.626	6.750
Less MRP/VRP and other financing movements	(0.145)	(8.772)	(8.737)	(8.697)	(8.664)
Movement in CFR	**0.000**	**1.820**	**(4.416)**	**65.929**	**(1.914)**

3.6 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

3.7 The Council has set the following **affordability prudential indicators** as prescribed by the code and these are set out below and detailed in Appendix 1.

3.8 **Ratio of financing costs to 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. The estimates of financing costs include current commitments and the proposals in this budget report.

	2015/16 Actual	2016/17 Revised Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	0.84%	0.82%	0.79%	0.92%	1.02%
HRA	4.02%	5.23%	6.12%	10.30%	10.77%

3.9 **Incremental impact of capital investment decisions on council tax** - This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2015/16 Actual	2016/17 Revised Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council Tax - Band D (per annum)	24.055	29.224	32.537	31.224	30.074

3.10 **Estimates of the incremental impact of capital investment decisions on housing rent levels** - Similar to the Council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

£	2015/16 Actual	2016/17 Revised Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly housing rent levels	0.00	2.123	1.458	6.397	0.923

4. **PROSPECTS FOR INTEREST RATES**

4.1 The borrowing and investment strategy is in part determined by the economic environment within which it operates. The treasury advisor to the Council is Capita Asset Services and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's overall view on interest rates for the next three years.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 Year	25 year	50 year
Dec 2016	0.25	1.60	2.30	2.90	2.70
Mar 2017	0.25	1.60	2.30	2.90	2.70
Jun 2017	0.25	1.60	2.30	2.90	2.70
Sep 2017	0.25	1.60	2.30	2.90	2.70
Dec 2017	0.25	1.60	2.30	3.00	2.80
Mar 2018	0.25	1.70	2.30	3.00	2.80
Jun 2018	0.25	1.70	2.40	3.00	2.80
Sep 2018	0.25	1.70	2.40	3.10	2.90
Dec 2018	0.25	1.80	2.40	3.10	2.90
Mar 2019	0.25	1.80	2.50	3.20	3.00
Jun 2019	0.50	1.90	2.50	3.20	3.00
Sep 2019	0.50	1.90	2.60	3.30	3.10
Dec 2019	0.75	2.00	2.60	3.30	3.10
Mar 2020	0.75	2.00	2.70	3.40	3.20

4.2 The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

4.3 The Monetary Policy Committee, (MPC), meeting of 4th August was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

4.4 The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November.

4.5 The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority.

4.6 The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.

4.7 The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. The central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, the Council's treasury adviser would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though they think this is unlikely. They also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on their forecasts.

4.8 Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

4.9 The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

4.10 What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

4.11 Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

4.12 Employment has been growing steadily during 2016, despite initial expectations that the referendum would cause a fall in employment. However, the latest employment data in November, (for October), showed a distinct slowdown in the rate of employment growth and an increase in the rate of growth of the unemployment claimant count. House prices have been rising during 2016 at a modest pace but the pace of increase has been slowing since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

4.13 The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016.

4.14 In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

4.15 Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

4.16 In conclusion investment returns are likely to remain low during 2017/18 and beyond;

a) Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced.

b) Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, we need to carefully review this to avoid incurring higher borrowing costs in later times when the Council will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

c) There still remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

5. TREASURY MANAGEMENT CONSIDERATIONS AND DEVELOPMENT

5.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Council anticipates its fund balances in 2017/18 to average around £350m, if we persist with the policy of internal borrowing to fund the Council's underlying need to borrow.

5.2 The Pension Fund surplus cash will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Corporate Director Resources to manage within agreed parameters.

5.3 The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

5.4 **Core funds and expected investment balances** – The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, etc.).

Detailed below are estimates of the year end balances of investments.

Year End Resources	2015/16 Actual	2016/17 Projected Outturn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Expected Investments	£381.4m	£400m	£350m	£300m	£300m

5.5 **Current portfolio position** - The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2015/16 Actual	2016/17 Projected Outturn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt at 1 April	87.825	85.936	94.888	98.206	161.236
Expected change in Debt	(0.842)	(1.889)	(1.639)	(1.004)	(1.004)
New borrowing		10.592	4.321	74.626	6.750
Other long-term liabilities (OLTL)	38.472	37.509	36.304	34.957	33.415
Expected change in OLTL	(0.963)	(1.205)	(1.347)	(1.542)	(1.931)
Actual gross debt (Inc. PFI) at 31 March	**124.492**	**130.943**	**132.527**	**205.243**	**198.466**
The Capital Financing Requirement (Inc. PFI)	**262.588**	**264.408**	**259.993**	**325.921**	**324.008**
Under / (over) borrowing	***138.096***	***133.465***	***127.466***	***120.678***	***125.541***

5.6 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

5.7 The Corporate Director of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

5.8 **Treasury Indicators: limits to borrowing activity for 2016-17 to 2019-20** Treasury indicators are about setting parameters within which within which officers can take treasury management decisions. The Council has set the following treasury indicators as prescribed by the Code and these are set out below and also detailed in Appendix 1:

- **Authorised Limit for External Debt** – The upper limit on the level of gross external debt permitted. It must not be breached without Full Council approval.

The Council is asked to approve the following authorised limit:

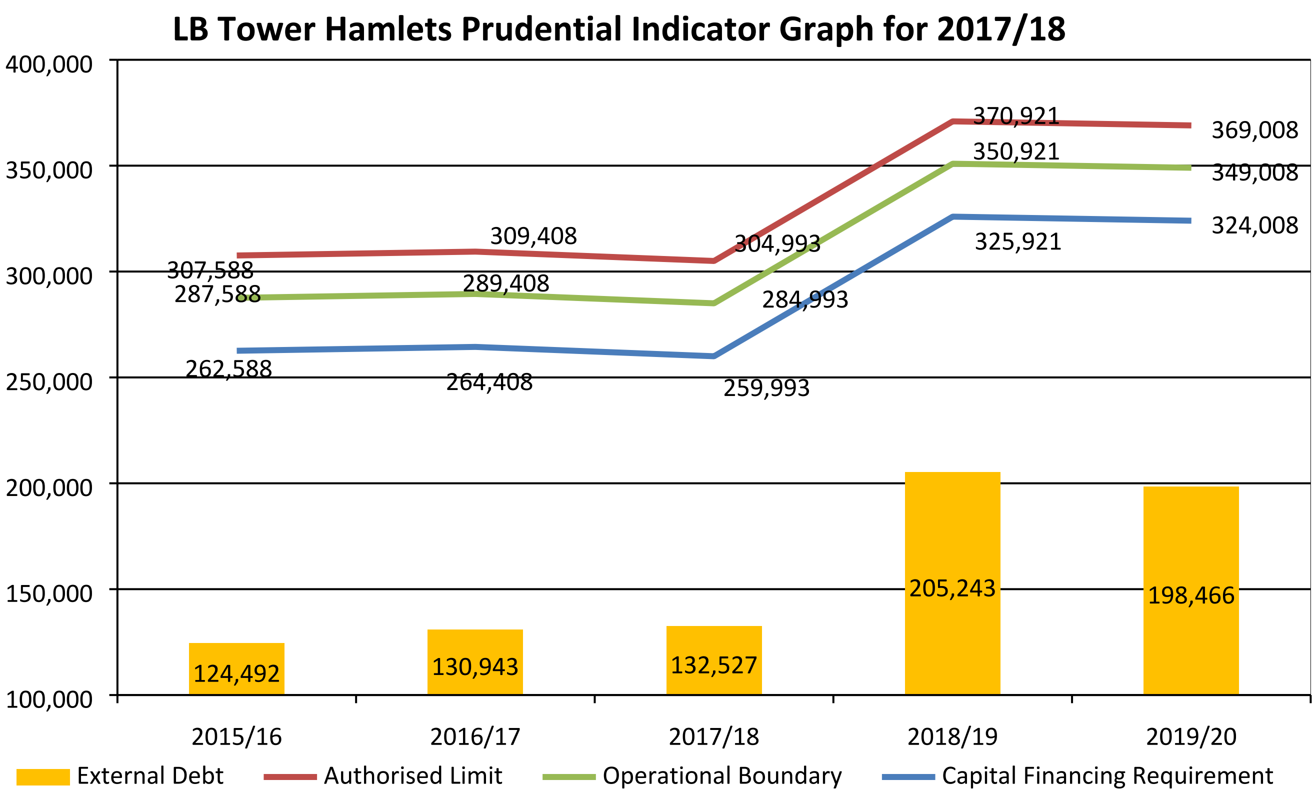
Authorised limit £m	2016/17 Projected Outturn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing & OLTL	289.408	284.993	350.921	349.008
Headroom	20.000	20.000	20.000	20.000
Total	**309.408**	**304.993**	**370.921**	**369.008**

- **Operational Boundary for External Debt** – Most likely and prudent view on the level of gross external debt requirement. Debt includes external borrowings and other long term liabilities.

Operational Boundary £m	2016/17 Projected Outturn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	251.899	248.689	315.964	315.593
Other long term liabilities	37.509	36.304	34.957	33.415
Total	**289.408**	**284.993**	**350.921**	**349.008**

- **HRA Debt Limit** – The HRA Self Financing regime came into effect on 1 April 2012. The new regime imposes a maximum HRA CFR on the Council. For this Council this has been set at £184m following repayment of HRA debt totalling £236.2m by the Government as part of debt settlement that preceded the implementation of the HRA Self Financing regime. In 2014, as part of the Local Growth Fund LBTH was awarded £8.225m of additional HRA borrowing capacity, so in effect the HRA debt cap is currently £192m.

HRA Debt Limit £m	2016/17 Projected Outturn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt cap	192.000	192.000	192.000	192.000
HRA CFR	83.266	83.533	148.858	146.309
HRA Headroom	**108.734**	**108.467**	**43.142**	**45.691**



Investment returns expectations

5.9 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

5.10 Policy Rate is forecast to remain flat at 0.25% until quarter 2 of 2019. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

5.11 There are downside risks to these forecasts (i.e. further reduction in Bank Rate) if economic growth weakens. However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

5.12 Stated below are the estimated average investment earnings rates for investments placed during each financial year for the next three years:

- 2016/17 0.65%
- 2017/18 0.45%
- 2018/19 0.40%
- 2019/20 0.50%

5.13 **Investment treasury indicator and limit** - total principal funds invested for greater than 1 year. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

5.14 **Investments Longer than a Year:** The Code of Practice requires the Council to give consideration to longer-term investment and set an upper limit for principal sums to be invested for longer than one year. The Council currently has £50m limit for investments invested for longer than one year.

5.15 Therefore taking all of the abovementioned into consideration, in order for the Council to have flexibility in investing in high quality counterparties, such as the UK Government, it is recommended that the Council set an upper limit for principal sums to be invested for longer than one year at £100 million for 2017/18, £100 million for 2018/19, £100 million for 2019/20 and £100m for 2020/21.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 1 year					
£m	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 1 year	£50m	£100m	£100m	£100m	£100m

5.16 For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits (overnight to100 days),such as its Santander 95 days call account in order to benefit from the compounding of interest.

5.17 **Provision for Credit-related Losses** - If any of the Council's investments appear at risk of loss due to default, provision would need to be made from revenue for the appropriate amount. The Council has no exposure to any banking failure.

6. BORROWING STRATEGY

6.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Corporate Director Reources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

6.3 Any decisions will be reported to the Cabinet and the full Council at the next available opportunity.

6.4 The Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.
- Temporary borrowing from the money markets or other local authorities
- PWLB variable rate loans for up to 10 years
- Short dated borrowing from non PWLB below sources
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

6.5 The Council will continue to borrow in respect of the following:

- Maturing debt (net of minimum revenue provision).

- Approved unsupported (prudential) capital expenditure.
- To finance cash flow in the short term.

6.6 The type, period, rate and timing of new borrowing will be determined by the Corporate Director Resources under delegated powers, taking into account the following factors:

- Expected movements in interest rates as outlined above.
- Current maturity profile.
- The impact on the medium term financial strategy.
- Prudential indicators and limits.

6.7 **Treasury management limits on borrowing activity** - There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- **Upper limits on variable interest rate exposure** - This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- **Upper limits on fixed interest rate exposure** - This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- **Maturity structure of borrowing** - These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2017/18	2018/19	2019/20
Interest rate exposures			
	Upper %	**Upper %**	**Upper %**
Limits on fixed interest rates based on net debt	100	100	100
Limits on variable interest rates based on net debt	75	75	75
Limits on fixed interest rates:			
• ***Debt only***	*100*	*100*	*100*
• ***Investments only***	*100*	*100*	*100*
Limits on variable interest rates			
• ***Debt only***	*90*	*90*	*90*
• ***Investments only***	*50*	*50*	*50*

Maturity structure of fixed interest rate borrowing 2017/18		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	80%

10 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2017/18		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

6.8 **Policy on borrowing in advance of need** - The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

6.9 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 18 months in advance of need.

6.10 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual outturn reporting mechanism.

6.11 **Debt rescheduling** - As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

6.12 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

6.13 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

6.14 All rescheduling will be reported to the Cabinet and Council, at the earliest meeting following its implementation.

7. ANNUAL INVESTMENT STRATEGY

7.1 **Investment policy -** The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

7.2 In order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

7.3 Ratings will not be the sole determinant of the quality of an institution as it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. The Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

7.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

7.5 Investment instruments identified for use in the financial year are listed in section 7.15 and 7.16-7.21, under the 'specified' and 'non-specified' investments categories.

7.6 **In summary –** considering the factors set out in Paragraphs 4-7, the recommended Investment Strategy is that:

I. The cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cash flow model and current market and economic conditions;
II. Liquidity is maintained by the use of overnight deposits, MMF and call accounts;
III. The minimum amount of short-term cash balances required to support monthly cash flow management is £75 million;
IV. The upper limit for investments longer than one year is £100 million;
V. The maximum period for longer term lending is 5 years;
VI. All investment with institutions and investment schemes is undertaken in accordance with the Council's creditworthiness criteria as set out at section 7;
VII. More cautious investment criteria are maintained during times of market uncertainty;
VIII. All investment with institutions and investment schemes is limited to the types of investment set out under the Council's approved "Specified" and "Non-Specified" Investments detailed at section 7, and that professional advice continues to be sought where appropriate;
IX. All investment is managed within the Council's approved investment/asset class limits.

Creditworthiness Policy

7.7 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

7.8 The Corporate Director Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

7.9 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, and consequently this institution will fall outside the Council's lending criteria.

7.10 Credit rating information is supplied by Capita Asset Services, the Council treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. This does not apply to the unrated building societies or banks whereby they are selected based on enhanced credit analysis.

7.11 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

1) Banks with good credit quality **–** the Council will only use banks which:

   i. are UK banks; and/or

   ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAA

   And have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

   i. Short Term – 'F1'

   ii. Long Term – 'A-'

(N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

2) Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Bank above.

3) The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

4) Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

5) Unrated/Challengers Banks – The Council will use unrated banks with assets in excess of £1.5bn. When investing with such institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.

   I. The "RAG" framework will be used for Building societies as well as Banks, for the Council to evaluate and compare security and liquidity of investment opportunities.
   II. The "RAG" (Red, Amber or Green) indicator framework is generally used to identify the strength of a company's financial numbers.
   III. For example, all the financials there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.

6) Building societies - The Council will use all building societies in the UK which:

   iii. Meet the ratings for banks outlined above;

   iv. Have assets in excess of £1.5bn;

   or meet both criteria.

7) Money Market Funds (MMF) – AAA

8) Enhanced Money Market Funds (EMMFs) – AAA

9) Certificates of Deposits (CDs)

10) Corporate Bonds

11) Covered Bonds

12) Property Funds

13) Equity Funds

14) UK Government (including gilts, treasury bills and the Debt management Account Deposit Facility, (DMADF))

15) Local authorities, parish councils, Police and Fire Authorities

16) Supranational institutions

7.12 **The Council is asked to approve the minimum credit rating required for an institution to be included in the Council's counterparty list as follows:**

Agency	Long-Term	Short-Term
Fitch	A-	F1
Moody's	A3	P-1
Standard & Poor's	A-	A-1
Sovereign Rating	AAA	
Money Market Fund	AAA	

7.13 **Country and Product considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks above. In addition:

- No more than a maximum amount of £75m or 25% of the investments portfolio will be placed with any individual non-UK country with AAA sovereign rating at any time;
- limits in place above will apply to a group of institutions within a non UK country;
- Product limits will be monitored regularly for appropriateness.

7.14 **Use of additional information other than credit ratings –** Additional requirements under the Code requires the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information are for example Credit Default Swaps, negative rating watches/outlooks, these will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments

7.15 **Specified Investments:** It is recommended that the Council should make Specified investment as detailed below, all such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high credit' quality criteria where applicable. The Council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining 'high credit rating' as being F1 Fitch short-term and A- long-term credit rating or equivalent Moody's or Standard and Poor's rating.

Specified Investments	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Term Deposits (Banks - higher quality)	*Short-term F1+, Long-term AA*	£30m	1 year
Term Deposits (Banks – medium (high) quality)	*Short-term F1, Long-term A+*	£25m	1 year
Term Deposits (Banks – medium (low) quality)	*Short-term F1, Long-term A*	£20m	1 year
Term Deposits (Banks - lower quality)	*Short-term F1, Long-term A-*	£10m	6 months
Banks - part nationalised (per group)	N/A	£70m	1 year
Council's banker (not meeting lending criteria)	XXX	£25m	1 day
DMADF	N/A	unlimited	6 months
Local authorities	N/A	£20m	1 year
Treasury Bills	Long Term AAA	No Limit	1 year
UK Government Gilts	N/A	No Limit	1 year
Covered Bonds	Long Term AAA	£25m	1 year
Non-UK Government Bonds	Sovereign AAA Long Term AAA	£25m	1 year
Certificates of Deposits	As Term Deposits above	As Term Deposits above	As Term Deposits above
Corporate Bond Funds	As Term Deposits above	As Term Deposits above	As Term Deposits above
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
	Fund rating	**Money Limit (per fund)**	**Time Limit**
Money market funds (Sterling)	AAA	£25m	liquid
Enhanced Cash Funds	AAA/V1	£20m	liquid
Cash Funds	AAA	£20m	liquid
Bond Funds	AAA	£20m	liquid

Non-Specified Investments:

7.16 All investments that do not qualify as specified investments are termed non-specified investments. The table below details the total percentage of the Annual Principal Sums that can be Invested for more than 1 year and can be held in each category of investment, for example 100% of the Principal Sums limit can be held with the UK Government at any one time.

7.17 **Unrated banks, building societies and other institutions** are classed as non-specified investments irrespective of the investment period. When investing with this institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.

7.18 The “RAG” (Red, Amber or Green) framework will be used by the Council to evaluate and compare the security and liquidity elements of investment opportunities with unrated institutions as deemed appropriate.

7.19 The “RAG” indicator framework is generally used to identify the strength of a company’s financial numbers. For example, all for the financial sector there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.

In assessing investment opportunities with unrated UK Banks, Building Societies and other Institutions the Council will look at the following metrics:

Ratio	Red	Amber	Green
Total Debt / Equity	<5	5-10	>10
Net Interest Margin	<0	0-1.5	>1.5
CET1 Ratio	<9	9-13%	>13%
Capital Adequacy Ratio	<0	10-12%	>12%
Total Capital Ratio	<8	8-14%	>14%

Ratio	Red	Amber	Green
Tangible Equity Ratio	<3	3-5	>5
Loan to Deposit Ratio	>110	100-110	<100
Non-performing loan Ratio	>5	2-5	<2
Return on Equity	<0%	0-10%	>10%
Dividend yield	0-8%	8-12%	>12%
P/E Ratio	<0	0-10	>10%

7.20 Whilst the Council look for as many ‘greens’ as possible, a balance of ratios that indicate long-term solvency and ability for the institution to service and repay debts is most important.

Minimum Criteria for considering Unrated Institutions with money and time limits:

	Institution Assets Value	Money Limit	Time Limit
Unrated UK Building Societies & Challenger Banks with assets in excess of:	£1.5bn £2.0bn	£3m £5m	6 months 12 months

7.21 It is considered that the maximum nominal value of overall investments that the Council should hold for more than one year and less than 5 years is £100m. (Investments with maturity over one year) **The prudential indicator figure of £100m is therefore recommended.**

The credit criteria for non-specified investments are detailed in the table below:

Non-Specified Investments	Fitch Long term Rating (or Equivalent)	Time Limit	Monetary Limit
Term deposits – Banks and Building Societies	Short-term F1+, Long-term AA-	5 years	£25m
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Short-term F1+, Long-term AA-	5 years	£25m
Part Nationalised or Wholly Owned UK Banks	N/A	5 years	£25m
Certificates of Deposits	Short-term F1+, Long-term AA-	5 years	£25m
Corporate Bonds	Short-term F1+, Long-term AA-	5 years	£25m
Covered Bonds	Long Term AAA	5 years	£25m
Equity Funds	N/A	5 years	£25m
Property Funds	N/A	5 years	£25m
UK Government Gilts	N/A	5 years	100% of Investment Portfolio

The Council is asked to approved the above criteria for specified and all non-specified investments.

7.22 Country limits - The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). A counterparty list will be compiled based on this sovereign rating of AAA and in accordance with the Council's minimum credit rating criteria policy for institutions and qualified institutions will be added to this list, and unqualified institutions will be removed from the list, by officers as deemed appropriate. Please see Appendix 3 for qualified countries and their institutions as of 03/01/2017.

APPENDICES

Appendix 1 – Prudential and Treasury Indicators

Appendix 2 – Definition of Credit Ratings

Appendix 3 – Counter Party Credit Rating List

Appendix 4 – Treasury Management Policy Statement

Appendix 5 – Treasury Management Scheme of Delegation

Appendix 6 – Treasury Management Reporting Arrangement

Appendix 7 - Glossary

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

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.**
	Bola Tobun, x4733, Mulberry Place

APPENDIX 1

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS FOR 2017/18

Prudential Indicators	**2015/16**	**2016/17**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Extract from Estimate and rent setting reports	**Actual**	**Original Estimate**	**Projected Outturn**	**Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m	£m
Capital Expenditure						
Non – HRA	26.620	89.475	46.572	74.178	56.997	34.900
HRA	66.359	138.315	89.345	77.720	83.444	0.000
TOTAL	**92.979**	**227.790**	**135.917**	**151.898**	**140.441**	**34.900**
Ratio of Financing Costs to Net Revenue Stream						
Non – HRA	0.84%	1.09%	0.82%	0.79%	0.92%	1.02%
HRA	4.02%	5.94%	5.23%	6.12%	10.30%	10.77%
	£m	£m	£m	£m	£m	£m
Gross Debt and Capital Financing Requirement						
Gross Debt	124.492	133.361	130.943	132.527	205.243	198.466
Capital Financing Requirement	262.588	287.173	264.408	259.993	325.921	324.008
Over/(Under) Borrowing	(138.096)	(153.812)	(133.465)	(127.466)	(120.678)	(125.541)
In Year Capital Financing Requirement						
HRA	5.908		0.355	1.500	6.750	6.750
Non – HRA	(6.980)	21.804	10.237	2.821	67.876	0.000
TOTAL	**(1.072)**	**21.804**	**10.592**	**4.321**	**74.626**	**6.750**
Capital Financing Requirement as at 31 March						
Non - HRA	187.005	192.310	181.143	176.459	177.063	177.699
HRA	75.583	94.864	83.266	83.533	148.858	146.309
TOTAL	**262.588**	**287.173**	**264.408**	**259.993**	**325.921**	**324.008**
Incremental Impact of Financing Costs (£)						
Increase in Council Tax (band D) per annum	24.055	24.458	29.224	32.537	31.224	30.074
Increase in average housing rent per week	5.615	2.855	2.123	1.458	6.397	0.923

Treasury Management Indicators	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20
	Actual	Original Estimate	Projected Outturn	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Authorised Limit For External Debt -						
Borrowing & Other long term liabilities	287.588	312.173	289.408	284.993	350.921	349.008
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
TOTAL	**307.588**	**332.173**	**309.408**	**304.993**	**370.921**	**369.008**
Operational Boundary For External Debt -						
Borrowing	87.825	274.664	251.899	248.689	315.964	315.593
Other long term liabilities	38.472	37.509	37.509	36.304	34.957	33.415
TOTAL	**126.297**	**312.173**	**289.408**	**284.993**	**350.921**	**349.008**
Gross Borrowing	**124.492**	**133.361**	**130.943**	**132.527**	**205.243**	**198.466**
HRA Debt Limit*	**184.381**	**192.000**	**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%**	**100%**
Upper Limit For Variable Rate Exposure Net interest payable on variable rate borrowing / investments	**20%**	**20%**	**20%**	**20%**	**20%**	**20%**
Upper limit for total principal sums invested for over 12 months (per maturity date)	**£50m**	**£50m**	**£100m**	**£100m**	**£100m**	**£100m**

Maturity structure of new fixed rate borrowing during 2017/18	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 ***Definition of Fitch Credit Ratings***

Support Ratings

Rating	Current Definition (December 2014)
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Short-term Ratings

Rating	Current Definition (December 2014)
F1	**Highest short-term credit quality.** Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	**Good short-term credit quality.** A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	**Fair short-term credit quality.** The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Long -term Ratings

Rating	Current Definition (December 2014)
AAA	**Highest credit quality -** 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	**Very high credit quality -** 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	**High credit quality -** 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	**Good credit quality -** 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity. This is the lowest investment-grade category.
BB	**Speculative** - ‘BB’ ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.
B	**Highly speculative -** ‘B’ ratings indicate that material default risk is present, but limited margin of safety remains. Financial commitments are currently being me however, capacity for continued payment is vulnerable to deterioration in th business and economic environment.
CCC	**Substantial credit risk – ‘**CCC’ Default is a real possibility.
CC	**Very high levels of credit risk –** ‘CC’ Default of some kind appears probable
C	**Exceptionally high levels of credit risk** Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a ‘C’ category rating for an issuer include: a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation; b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or c. Fitch Ratings otherwise believes a condition of ‘RD’ or ‘D’ to be imminent or inevitable, including through the formal announcement of a distressed debt exchange. (RD – stands for restricted default and D – default).

Note:

The modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the ‘AAA’ Long-Term IDR category, or to Long-Term IDR categories below ‘B’.

Appendix 3

London Borough of Tower Hamlets
Counterparty Credit Rating List as at 03/01 2017

		Fitch Ratings			Moodys Ratings			S&P Ratings		
Counterparty		Long Term		Short Term	Long Term		Short Term	Long Term		Short Term
Australia		SB	AAA		SB	Aaa		NO	AAA	
Banks	Australia and New Zealand Banking Group Ltd.	SB	AA-	F1+	NO	Aa2	P-1	NO	AA-	A-1+
	Commonwealth Bank of Australia	SB	AA-	F1+	NO	Aa2	P-1	NO	AA-	A-1+
	Macquarie Bank Ltd.	SB	A	F1	SB	A2	P-1	NO	A	A-1
	National Australia Bank Ltd.	SB	AA-	F1+	NO	Aa2	P-1	NO	AA-	A-1+
	Westpac Banking Corp.	SB	AA-	F1+	NO	Aa2	P-1	NO	AA-	A-1+
Canada		SB	AAA		SB	Aaa		SB	AAA	
Banks	Bank of Montreal	SB	AA-	F1+	NO	Aa3	P-1	SB	A+	A-1
	Bank of Nova Scotia	SB	AA-	F1+	NO	Aa3	P-1	SB	A+	A-1
	Canadian Imperial Bank of Commerce	SB	AA-	F1+	NO	Aa3	P-1	SB	A+	A-1
	National Bank of Canada	SB	A+	F1	NO	Aa3	P-1	SB	A	A-1
	Royal Bank of Canada	NO	AA	F1+	NO	Aa3	P-1	NO	AA-	A-1+
	Toronto-Dominion Bank	SB	AA-	F1+	NO	Aa1	P-1	SB	AA-	A-1+
Denmark		SB	AAA		SB	Aaa		SB	AAA	
Banks	Danske A/S	SB	A	F1	PO	A1	P-1	SB	A	A-1
Germany		SB	AAA		SB	Aaa		SB	AAA	
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+
	Landesbank Berlin AG				PO	Aa3	P-1			
	Landesbank Hessen-Thueringen Girozentrale	SB	A+	F1+	SB	Aa3	P-1	SB	A	A-1
	Landwirtschaftliche Rentenbank	SB	AAA	F1+	SB	Aaa	P-1	SB	AAA	A-1+
	NRW.BANK	SB	AAA	F1+	SB	Aa1	P-1	SB	AA-	A-1+
Netherlands		SB	AAA		SB	Aaa		SB	AAA	
Banks	ABN AMRO Bank N.V.	SB	A+	F1	SB	A1	P-1	SB	A	A-1
	Bank Nederlandse Gemeenten N.V.	SB	AA+	F1+	SB	Aaa	P-1	SB	AAA	A-1+
	Cooperatieve Rabobank U.A.	SB	AA-	F1+	NO	Aa2	P-1	SB	A+	A-1
	ING Bank N.V.	SB	A+	F1	SB	A1	P-1	SB	A	A-1
	Nederlandse Waterschapsbank N.V.				SB	Aaa	P-1	SB	AAA	A-1+
Singapore		SB	AAA		SB	Aaa		SB	AAA	
Banks	DBS Bank Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+
	Oversea-Chinese Banking Corp. Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+

	United Overseas Bank Ltd.	SB	AA-		F1+	SB	Aa1		P-1	SB	AA-		A-1+
Sweden		SB	AAA			SB	Aaa			SB	AAA		
Banks	Nordea Bank AB	SB	AA-		F1+	SB	Aa3		P-1	NO	AA-		A-1+
	Skandinaviska Enskilda Banken AB	SB	AA-		F1+	SB	Aa3		P-1	SB	A+		A-1
	Svenska Handelsbanken AB	SB	AA		F1+	SB	Aa2		P-1	NO	AA-		A-1+
	Swedbank AB	SB	AA-		F1+	SB	Aa3		P-1	NO	AA-		A-1+
Switzerland		SB	AAA			SB	Aaa			SB	AAA		
Banks	Credit Suisse AG	SB	A		F1	SB	A1		P-1	SB	A		A-1
	UBS AG	SB	A+		F1	SB	Aa3		P-1	SB	A+		A-1
United Kingdom		NO	AA			NO	Aa1			NO	AA		
AAA rated and Government backed securities	Debt Management Office												
Banks	Bank of Scotland PLC	SB	A+		F1	SB	A1		P-1	NO	A		A-1
	Close Brothers Ltd	SB	A		F1	SB	Aa3		P-1				
	Co-operative Bank PLC (The)	SB	B		B	PO	Caa2		NP				
	Goldman Sachs International Bank	SB	A		F1	SB	A1		P-1	SB	A+		A-1
	HSBC Bank PLC	SB	AA-		F1+	NO	Aa2		P-1	NO	AA-		A-1+
	Lloyds Bank Plc	SB	A+		F1	SB	A1		P-1	NO	A		A-1
	Santander UK PLC	PO	A		F1	NO	Aa3		P-1	NO	A		A-1
	Standard Chartered Bank	SB	A+		F1	NO	Aa3		P-1	SB	A		A-1
	Sumitomo Mitsui Banking Corporation Europe	NO	A		F1	SB	A1		P-1	PO	A		A-1
	UBS Ltd.	SB	A+		F1	SB	A1		P-1	SB	A+		A-1
	Ulster Bank Ltd	SB	BBB+		F2	PO	A3		P-2	SB	BBB		A-2
Building Society	Coventry Building Society	SB	A		F1	NO	A2		P-1				
	Cumberland Building Society												
	Leeds Building Society	SB	A-		F1	NO	A2		P-1				
	National Counties Building Society												
	Nationwide Building Society	PO	A		F1	NO	Aa3		P-1	NO	A		A-1
	Newcastle Building Society	SB	WD		WD								
	Nottingham Building Society					NO	Baa1		P-2				
	Principality Building Society	SB	BBB+		F2	SB	Baa3		P-3				
	Progressive Building Society												
	Skipton Building Society	SB	A-		F1	PO	Baa2		P-2				
	West Bromwich Building Society					SB	B1		NP				
	Yorkshire Building Society	SB	A-		F1	SB	A3		P-2				
Nationalised and Part	National Westminster Bank PLC	SB	BBB+		F2	PO	A3		P-2	SB	BBB+		A-2

Nationalised Banks	The Royal Bank of Scotland Plc	SB	BBB+		F2	PO	A3		P-2	SB	BBB+		A-2

Appendix 4

Treasury Management Policy Statement

The London Borough of Tower Hamlets defines the policies and objectives of its treasury management activities as follows: -

1. This organisation defines its treasury management activities as:

   "The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

Policy on use of an External Treasury Advisor

The Council shall employ an external treasury advisor to provide treasury management advice and cash management support services. However, the Council shall control the credit criteria and the associated counter-party list for investments.

The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Treasury Management Scheme of Delegation

1. **Full Council / Cabinet**
    - receiving and reviewing reports on treasury management policies. practices and activities
    - receiving the mid-year and annual (outturn) reports
    - approval of annual strategy.

2. **Cabinet /Section 151 Officer**
    - approval of/amendments to the organisation's adopted clauses and treasury management policy statement
    - budget consideration and approval
    - approval of the division of responsibilities
    - approving the selection of external service providers and agreeing terms of appointment.

3. **Audit Committee**
    - reviewing the treasury management policy and procedures and making recommendations to the responsible body.
    - receiving and reviewing regular monitoring reports and acting on recommendations

Appendix 6

Treasury Management Reporting Arrangement

Area of Responsibility	Council/Committee/ Officer	Frequency
Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	Annually before the start of the financial year to which policies relate
Mid-Year Treasury Management Report	Full Council	Semi-Annually in the financial year to which policies relate
Updates or revisions to the Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Audit Committee or Full Council	As necessary
Annual Treasury Outturn Report	Audit Committee and Full Council	Annually by 30 September after the year end to which the report relates
Treasury Management Practices	Corporate Director-Resources	N/A
Scrutiny of Treasury Management Strategy Statement	Overview and Scrutiny Committee (if called in) / Audit Committee	Annually before the start of the financial year to which the report relates
Scrutiny of Treasury Management Performance	Audit Committee	Quarterly

Appendix 7 - 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 & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
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.

Non-Executive Report of the: **Audit Committee** 31 January 2017	TOWER HAMLETS
Report of: Zena Cooke – Corporate Director Resources	**Classification:** Unrestricted
Quarter 3 Risk Management update and Corporate Risk Register 2016/17	

Originating Officer(s)	Minesh Jani
Wards affected	All wards

Summary

The purpose of this report is to update Audit Committee of the Council's corporate risks. The Corporate Risk Register is attached at Appendix 1 for information. The Audit Committee is asked to note the Council's risk profile has not changed significantly over the last six months whilst examining if the risks register continues to capture the risks to the strategic objectives in 1.2 below. Direct that transformational risk is properly reflected in the council's risk registers.

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

Recommendations:

The Audit Committee is recommended to:

1. Note the contents of this report

2. Consider the corporate risks at section 4 of this report (and detailed in Appendix 1) and recommend changes and updates as necessary; and

3. Determine if risks on the corporate risk register are a significant threat to the achievement of corporate objectives or the performance of activities to satisfy core statutory obligations; and

4. Request the risk owner(s) requiring further scrutiny to provide a detailed update on the treatment and mitigation of the risk including impact on the corporate objectives at its March meeting.

5. Endorse the actions set out in table of section 1.5 and for each Director to ensure corporate and directorate risks for their directorate are reviewed as and when due for review.

1. Background

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

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

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

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

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

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

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

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

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

2. Reasons for the Decisions

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

3. Details of Report

3.1 The Audit Committee requires the Head of Audit and Risk Management to provide a quarterly report on the effectiveness of the process deployed to identify, assess, prioritise and mitigate the key risks which could affect the overall achievement of service objectives.

3.2 Corporate risk register

The current risk register contains a total of 12 risks; which are rated as four red and eight amber (see para 1.2 above for the risk definitions).

The table below is a breakdown of the number of corporate risks by directorate for quarter 3, 2016/17.

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

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

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

4. DETAILS OF REPORT

4.1 The Council continues to face significant challenges given the current funding environment. Despite severe pressures on services and maintaining services to the most vulnerable, the council has to generate further savings and efficiencies at the same time. Given such circumstances, robust risk management is vital in order to meet such disparate challenges whilst maximising the achievement of the Council's corporate objectives.

4.2 The strategic objectives within the Corporate Strategy are as follows:

1. Creating opportunity by supporting aspiration and tackling poverty
   - More residents in good quality, well paid jobs
   - Young people realising their potential
   - More people living healthily and independently for longer
   - Reducing inequality and embracing diversity

2. Creating and maintaining a vibrant, successful place
   - An improved local environment
   - Better quality homes for all
   - Reduced crime and anti-social behaviour
   - Engaged, resilient and cohesive communities

3. A transformed council, making best use of resources and with an outward looking culture

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

4.4 The table below shows the number of risks associated with these corporate priorities.

Corporate Priority	**No of Q4 2015/16**	**No of Q1 2016/17**	**No of Q2 2016/17**	**No of Q3 2016/17**
Creating opportunity by supporting aspiration and tackling poverty	7	5	4	4
Creating and maintaining a vibrant, successful place	2	1	2	2
A transformed council, making best use of resources and with an outward looking culture	3	3	5	6
Total	**12**	**9**	**11**	12

Table 1. The number of risks identified by Corporate priority

Current Corporate risks

4.5 The table below sets out the council's current corporate risks and risk rating. It also shows current actions to be taken against each risk.

Risk	**Post Mitigation Risk**	**Target Rating**	**Meeting update**	**Required Action**
DRCPCCD0029 Failure to confirm the stage 2 Civic Centre client brief leads to the programme stalling and failing to meet its business case objectives.	Red	Red	New corporate risk	Require clarification on why it is a corporate risk.
DR0029 Council is unable to	Red	Amber	Risk reviewed	None.

identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019.				
REV0007 Impact on local income from appeals on the new local rating effective from 1/4/17.	Red	Amber	Risk reviewed	Recommended change in scoring of impact to 5 and the need to be reflected in MTFS.
CSDSC0004 Incidents of serious violence where young people known to or in the care (LAC) of the local Authority are harmed or perpetrate harm in a community setting.	Red	Amber	New corporate risk	Require clarification on why it is a corporate risk.
ASD0015 Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	Amber	Amber	None.	DMT review
CSD0016 Death or serious harm to a child that was or should have been in receipt of services, either from the	Amber	Amber	None.	DMT review

council or a partner agency.				
CSDR0002 Council's inability to meet demand for school places.	Amber	Yellow	Control measures update	Risk owner update.
RSB0019 Maintaining and strengthen financial viability/balance in 2016/17 to 2017/18.	Amber	Yellow	None.	None.
CLB0019 There is a risk that the Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed Christ Church Primary School's nursery building, which is built on a disused burial ground.	Amber	Yellow	New corporate risk	Target dates required on control measures.
CLSCEI0008 There is a risk that should a major incident take place affecting Council services, there may be a failure to implement an effective	Amber	Green	Risk owner update	Target dates required on control measures.

response.				
LPGLS0001 Non-compliance with corporate governance procedures.	Amber	Yellow	Risk champion to update	Control measures Update
LPGSE0001 Failure to achieve community cohesion. Radicalisation of young people and gangs.	Amber	Yellow	Risk champion to update	Risk owner update.

- Red – Severe
  - requires immediate attention
  - Serious concern. Comprehensive management action required immediately.

- Amber -Significant
  - action required but not immediately
  - Consequences of risk are of some concern although treating the risk will usually be through contingency planning. Risk to be kept under regular monitoring.

- Yellow – material
  - Consequences of risk are of some concern although treating the *risk will usually be through contingency planning.*
  - *Risk to be kept under regular monitoring.*

- *Green – Manageable*
  - *limited action required.*
  - *The risk is relatively low however risk should be monitored.*

Further, the Risk Champions Group noted the following and the Head of Audit and Risk Management will write to each director and seek that they are updated by the end of January at the latest: -

- There are currently 367 active risks on the Council's Risk Management Information Systems (JCAD) of which 105 are overdue for review. These should be reviewed and updated.

- There are also 332 active control measures on JCAD of which 141 are also overdue for review. These too should be reviewed and updated.

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

5. COMMENTS OF THE CHIEF FINANCE OFFICER

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

6. LEGAL COMMENTS

The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.

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

7. ONE TOWER HAMLETS CONSIDERATIONS

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

8. BEST VALUE (BV) IMPLICATIONS

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

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

10. RISK MANAGEMENT IMPLICATIONS

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

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 Corporate risk register

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- NONE.

Officer contact details for documents:

- N/A

Detailed Risk Report (incl Control Measure Target Date)

TOWER HAMLETS

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L	Current Risk I	Current Risk Total	Required Control Measures	Target Risk L	Target Risk I	Target Risk Total	Responsibility	CPT
DRCPCD0029	Failure to confirm the Stage 2 Civic Centre client brief leads to the programme stalling and failing to meet its business case objectives.	A failure to sign off the Stage 1 client brief in order to commence Stage 2 design.	Inability to progress Stage 2 design, resulting in the overall programme (and business case objectives) being at risk. Financial, Business Continuity, and Reputational implications.	Weekly Escalation of Required Next Steps with CEO Weekly updates and review meetings being held with CEO to secure decisions required to confirm the Client brief (Service Delivery Plans, e.g. Local Presence; Headcount Assumptions; Partner Co-location requirements). Instruction and re-mobilisation of design team required ASAP and by Christmas. Massing Option Testing with Historic England Offline testing of design capacity of the Civic Centre, in order to focus the number of options being considered by CMT.	5	5	25	***Required Control Measure Target Date:***	5	4	20	Hayley Miller	Creating And Maintaining A Vibrant, Successful Place

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L	I	Total	Required Control Measures	Target Risk L	I	Total	Responsibility	CPT
DR0029	Failure to deliver new Civic Centre by end of the Mulberry Place lease leads to the need to deliver an alternative temporary office location Managed and monitored as part of the Civic Centre Project Board Strategic Risk Register which includes detailed risk mitigations and controls Reported to the Project Board, the Council's Major Projects Board, CMT fortnightly and briefings to the Mayor.	Detailed in Civic Centre Project Strategic Risk Register	Detailed in Civic Centre Project Strategic Risk Register	Present a new report to November Cabinet (as per Mayor in Cabinet decision on 280715 that the original decision be withdrawn) x Explore option of negotiating an extension to Mulberry Place lease pending delivery of permanent Town Hall solution Current lease expires June 2020 Action outcomes of the Mayoral briefings on the Civic Centre Project x Obtain Cabinet approval for officer's recommendations Civic Centre Report	4	5	20	Required control measures are detailed in the Civic Centre Project - Strategic Risk Register . ***Ann Sutcliffe*** ***<u>Required Control Measure</u>*** ***Target Date:***	3	4	12	Aman Dalvi	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture

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

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L	I	Total	Required Control Measures	Target Risk L	I	Total	Responsibility	CPT
CSDSC0004	Incidents of serious violence where young people known to or in the care (LAC) of the Local Authority are harmed or perpetrate harm in a community setting	Postcode tensions due to gang activity, honeytrap behaviour or rumours on social media escalating tension between groups of young people who consdier themselves to be aligned to a gang or postcode group. Revenge attacks by friends or family of young people who have been targeted for violence or humilation	Risk of serious harm or death to the young people concerned. Risk of harm to community members who may inadvertantly become caught up in the incident. Reputational risk to Local Authority and poor media coverage.	Targetted or/and specialist intervention Targetted or/and specialist intervention with young people and their families from a range of services within the Community Safety partnership. Monitoring of intelligence through the monthly gangs unit meetings and daily police intelligence meetings in the Youth Offending Service. Regular reviews to assist risk management using the Risk Management panel.	4	4	16	Better co-ordination of intelligence with closer partnership with the Rapid Response team Refresh of Risk Management policy. Better co-ordination of intelligence with closer partnership with the Rapid Response team to de-escalate community violence. Increased resources in the A&E 'critical moment' intervention to respond on an early intervention basis. Review of the front door of the Youth Offending Service to realign it with the MASH ***Nikki Bradley*** ***Required Control Measure*** ***Target Date: 31/03/2017***	3	4	12	Nikki Bradley	Creating Opportunity By Supporting Aspiration And Tackling Poverty

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

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

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L	I	Total	Required Control Measures	Target Risk L	I	Total	Responsibility	CPT
CSD0016	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.	There is a failure of one or more the controls which fails to identify the degree of risk to a child. The common failures are: poor practice and inadequate management oversight; failure of quality control systems; service user fails to work to agreed parthership / agency arrangements; Poor communication and parthership work;Poor resourcing of service areas against increased demand which impacts on quality of decision-making; Local authority contracted out service do not have sufficiently robust safeguarding arrangements	Harm to an individual Poorer than expected outcomes for a child. Poor audit/review findings Reputational damage to the council. Loss of experienced professional staff. Potential for legal proceedings against the council leading to financial loss Loss of confidence in safeguarding capability across the council, partnership and wider.	Adherence to statutory government guidance, policies and procedures laid down by the council and LSCB / SAB Local Safeguarding Childrens Board Statutory government guidance,polices and procedures in place. Management oversight including supervision is in place. Quality Assurance framework to check and audit various areas is in place. Quality assurance systems including case audits, LSCB and SAB sub-groups. There is a new approach being taken to multiagency audits via the LSCB sub group and CSC are revewing their QA framework with a view to achieve less process, more assurance and better feedback. There is an active internal audit programme that does pick up key areas of risk and challenge within safeguarding. The effectiveness of this system is a work in progress. CSC have set up an inspection and improvement board to focus on target areas that indicate system and practice concerns that care not being resolved through business as usual processes.	3	5	15	Continue to implement Signs of Safety as overarching practice framework Evaluation of signs of safety is being led by Kings college. Findings especially around effectiveness will be included in planning for the service and related work. There is emerging evidence that this is an effective approach to reduce risk for children in families and also can give value for money. Having trained children social care staff we are now working with partners in the tier 2 space and developing a detailed practice model. ***Paul McGee*** ***Required Control Measure*** ***Target Date: 30/11/2016*** Ensure that CMT have a view of the activities within the service ..... Ensure that CMT have a view of the activities within the service and develop some assurance using the corporate accountability framework, risk register, management oversight, audit framework and Forward Plan. CMT safeguarding board is active. The Ofsted SEF document have been through DMT and to lead member. A new Inspection and Improvement Board has been set up. ***Debbie Jones*** ***Required Control Measure*** ***Target Date: 30/12/2016***	2	5	10	Debbie Jones	Creating Opportunity By Supporting Aspiration And Tackling Poverty

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
Page 226				Effective working relations and swift communication across partnership agencies .... Effective working relations and swift communication across partnership agencies that is held at different levels of Children's services. LSCB has an executive board for Directors and Chief Executive Officer level across the partnership. LSCB and LBTH CS has performance management and QA systems in place. This provide evidence and assurance to safeguarding board and partners that service is being delivered to expected standards, there are clear (proxy) indicators and where it is not so remedial action can be taken. Serious case review/learning process in place There has been a refreshed case alert process disseminated within Children Social Care, which feeds into the LSCB case review group. Any ongoing SCR work is held at service head level and a communication flow is done to the CMT Corporate Safeguarding Group, chaired by Chief Executive Officer. Safeguarding training programme in place covering induction and workforce development programme Staff complete the Health and Care professions Council (HPC) re-registration process every 3 years And there is a process to pick up delays/failures in registration so action can be taken.		Robust commissioning that includes safeguarding checks of providers A new commissioning strategy for children's services is being developed. which will focus on safeguarding and wellbeing offer to vulnerable children with measurable outcomes. ***Debbie Jones*** ***Required Control Measure*** ***Target Date: 29/12/2016*** Overview of level of violence and risk in families in Tower Hamlets Given the number of critical incidents involving children and young people in Tower Hamlets over the last 12 months, it is proposed via the CMT Safeguarding Board that we update the JSNA on domestic violence and abuse as part of the annual assessment on community safety. The links between gang violence and violence in families will be explored as part of this analysis. The purpose will be to test the feasibility of a public health type specific reducing violence strategy across the borough. It will also enable CMT to consider the integration of the the many pieces of work going on within the council and across the wider partnership aiming to increase safety and wellbeing of c/yp within a measurable framework. ***Debbie Jones*** ***Required Control Measure*** ***Target Date: 30/11/2016***			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
				Corporate Accountability Framework This describes key roles and has a number of expected activities that gave the authority assurance or identifies problem areas. Highlight is the CMT safeguarding monthly meeting chaired by the CEO in which key safeguarding risks are discussed and actioned. This framework also enables the appointment and management of an independent LSCB chair. Review arrangements of looked after children and child protection is led by the child protection review service. This is a critical challenge role to children's social workers. There is on going work to improve the oversight and authorative advice role. A new resolution process has been introduced and there is regular reporting of QA activities to CSC management team.					

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

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

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L	Current Risk I	Current Risk Total	Required Control Measures	Target Risk L	Target Risk I	Target Risk Total	Responsibility	CPT
RSB0019	Maintaining and strengthen financial viability/balance in 2016/17 to 2017/18	Reduction in government funding NHS integration – unfunded services transferred in through Public Health and Adult Social Care Changes in Government initiatives/priorities Potential inability to manage working capital effectively Increasing expectation of the Council aligned with increasing local need Implications of welfare reform agenda on council services and budgets CSR in Autum 2015 HRA changes Population growth	Future service cuts Inability to meet public expectation Increased pressure on delivery of statutory and priority services Unfunded base budget pressures/new burdens from government Failure to deliver community plan/strategic plan priorities.	Formal annual budget setting process and medium term financial plan Continuous monitoring of Council's medium term financial plan in place Monthly monitoring and management reporting of Council's financial position Annual External Audit health check on financial processes including budgets and reporting Programme Manager for Council Savings Plan in place. Corporate Programme Board formed to monitor delivery of savings programme. Monitoring in progress. Develop and implement corporate approach to deliver and monitoring of Council savings plan and transformation plan On-going advancement of linkages between the 30 year HRA Business Plan and Council service plans. Longer term finacial and investment strategy Methodology for council transformation in place and ongoing Corporate Transformation Programme covering all directorates with a focus on delivering service improvements, efficiencies and savings	3	5	15	Implement savings programme/opportunities Longer term financial and investment strategy ***Neville Murton*** ***Required Control Measure*** ***Target Date: 28/02/2017***	2	4	8	Neville Murton	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures	Target Risk			Responsibility	CPT
					L	I	Total		L	I	Total		
CLB0019	There is a risk that the Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed Christ Church Primary School's nursery building, which is built on a disused burial ground. (The basic premise of the challenge is that the school had no right to erect the building, and that it is unlawful to erect the building on a disused burial ground, and that it should be demolished.)	Decision by the Council to allow the Christ Church Primary School to occupy the building for the next academic year may trigger the matter taken to Court by the interested parties calling themselves Spitalfields Open Space (SOS) who object to the new building.	- The Council allowing Christ Church Primary School to occupy the building may result in the matter taken to Court, which could result in an injunction to vacate or not to occupy the building. - The Council's decision under the 1967 Act, to retain the building could be challenged in the High Court by way of a Judicial Review.	Authorise officers to seek Counsel's opinion Authorise officers to seek Counsel's opinion regarding the likely outcome of the Judicial Review currently held in abeyance (following the 1967 act determination) and on the extent to which populating the building and entering in to a lease with the school may or may not undermine our defence. CMT to agree to move forward with the lease to the School to allow occupation for the Summer Term Subject to the above advice received being marginal, neutral or positive, CMT to agree to move forward with the lease to the School to allow occupation for the Summer Term. CMT to consider if or when to commit any additional resource to the landscaping and improvement of the Open space In the context of the offer to SOS, and pending their reaction to it, CMT to consider if or when to commit any additional resource to the landscaping and improvement of the Open space.	3	4	12	Authorise officers to write to SOS with the Council's offers Authorise officers to write to SOS with an offer based on a 25 year life for the building and a commitment to moving the open space to a community trust and a proportion of their stated costs (to be determined by CMT). Letter sent and SOS are considering thier position ***Roy Ormsby*** ***Required Control Measure*** ***Target Date:*** CLC DMT risk review (09.04.2015): Jamie Blake to produce an update briefing note, and next step. ***Roy Ormsby*** ***Required Control Measure*** ***Target Date:***	2	4	8	Roy Ormsby	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture

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

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
				Rollout a refresh training programme for senior managers and officers supporting the emergency plan. Complete					

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

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

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L	I	Total	Required Control Measures	Target Risk L	I	Total	Responsibility	CPT
LPGLS0001	Non-compliance with corporate governance procedures	Poor understanding of governance processes / lack of clarity of processes Lack of awareness on areas such as conflict of interest and the Bribery Act Possible pressure from politicians on officers to deviate	Ineffective decision making Potential for reputation damage Poor council performance Failure to optimise opportunities Adverse media reporting Unlawfulness leading to ultra vires decision	Council Constitution in place Annual Governance Statement process reporting to the Audit Committee. . Regular meetings of the Statutory Officers Co-ordination Group. Ongoing. Arrangements in place for regular reporting of significant governance matters via Head of Audit and Risk and the Monitoring Off. Financial regulations, Financial and Procurement Procedures have been updated and further clarification of staff, manager and senior officer responsibilities have been incorporated. The post of 'financial compliance manager' has also been created through the restructure of finance and the role of that post is to monitor and report to the section 151 officer on non compliance in key areas such as use of purchase cards, petty cash, budget monitoring etc… Member training provided on Code of Conduct. Training for members and independent co-opted members of Standards Advisory Committee on Standards Framework was held on 14/07/15.	2	4	8	Review Constitution Proposals to be submitted to CMT by Constitution Working Group piecemeal as changes occur. ***Graham White*** ***<u>Required Control Measure</u>*** ***Target Date: 30/06/2017*** Refresh Local Code of Corporate Governance The review will need to be carried out in conjunction with the work of the Governance Group and the new code of corporate governance. ***Minesh Jani*** ***<u>Required Control Measure</u>*** ***Target Date: 31/01/2017*** Delivery of the culture change plan of the Best Value Plan. . ***Will Tuckley*** ***<u>Required Control Measure</u>*** ***Target Date: 31/03/2017*** Refresh Officers' Scheme of Delegation ***Graham White*** ***<u>Required Control Measure</u>*** ***Target Date: 30/06/2017*** Progression to the Mayor taking executive decisions in the absence of the Commissioners ***Will Tuckley*** ***<u>Required Control Measure</u>*** ***Target Date: 03/04/2017***	2	3	6	Graham White	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
				Mandatory training programme in place for members of the Planning, Licensing and Grants Scrutiny Committees. Training provided post 2015 Elections and further training delivered due to changes in membership of said Committees. Member Induction Programme took place June - July 2014. (After the Local, Mayor and Euro elections). Strategic Information Governance Board and Information Governance Review Group in place. Governance Review Working Group provide an oversight of continuing development of good governance E-learning anti fraud and bribery training programme including Bribery Act Provisions The e-learning and the accompanying test provide staff an opportunity to be appraised of the bribery regulations and more generally, of the anti fraud arrangements. Refresh Members Code of Conduct O&S Grants Scrutiny Sub-committee responsible for pre-decision scrutiny of grants matters Discharge of Executive decisions by the Commissioners to ensure that legal requirements are met.					

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Non-Executive Report of the: **Audit Committee** 31st January 2017	TOWER HAMLETS
Report of: Zena Cooke – Corporate Director Resources	**Classification:** Unrestricted
Bribery Risk Assessment 2016/17	

Originating Officer(s)	Minesh Jani
Wards affected	All wards

Summary
The purpose of this report is to present an assessment of bribery risks carried out by the risk management team. It highlights the heightened risk transactions identifying the sorts of transactions by which a bribe might be effected and activities and / or relationships which might give rise to risk.

Recommendations:

The Audit Committee is recommended to:

1. Agree actions in this report;

2. Seek assurances as necessary that service areas have a reasonable risk rating for bribery risks;

3. Communicate assessment to relevant stakeholders and

4. Recommend any further actions as necessary.

1. DETAILS OF REPORT

1.1 The Bribery Act 2010 came fully into force on 1 July 2011 and provides a legal framework to combat bribery in the public and private sectors. Appendix A.

1.2 Audit Committee endorse the Anti-Bribery Policy Statement, which has been rolled out across the Council and policies, procedures and processes to manage bribery related risks.

1.3 The report identified a number of services with potential risk areas for the council.

2. Bribery Risk Assessment Methodology

2.1 The methodology was based upon the Council's own risk management process although customised for this purpose. Its aim is to provide an objective bribery risk score for functions within the Council with a bribery risk.

Using the methodology: -

a. Functional areas within services were identified;

b. Each area of activity was assessed for the likelihood that bribery could occur;

c. Assessment for each services area of activity the impact on the Council of the occurrence of bribery.

d. Based on steps (b) and (c) above, calculate an overall bribery risk assessment score for each bribery risk category using a risk scoring matrix (see 3 below);

e. Independently assess the bribery risk scores to ensure they are accurate and complete;

f. Based on the bribery risk assessment score, consider what proportionate action needs to be taken by management to address any issues arising.

3. The scores were based on a Red, Amber and Green rating system as set out below:

Score	**Definition**
1 to 6	Low risk of bribery
7 to 14	Medium risk of bribery
15 to 24	High risk of bribery

Key Findings

The high risks identified in the following directorates and functional areas are: -

<u>Adults Services</u>

1. MH care practice

2. LD/CLDS mile end hospital

3. Direct Payments
4. Commissioning
5. Brokerage

Comment: Risk of bribery if procedures are not followed and appropriate sanctions invoked. Detailed assessment of each area will be undertaken in March.

Children's Services

1. Social Care ICT
2. Building Development
3. Youth Offending Service
4. Youth Service

Comment: Risk of bribery if procedures are not followed and appropriate sanctions invoked. Detailed assessment of each area will be undertaken in March.

CLC

1. Safer Communities - Licencing
2. Safer communities – Environmental Health and trading Standards

Comment: All front line officers are involved in enforcement and regulation. If non-compliance is discovered this may end in some sort of penalty for the business involved. There is a risk of bribery in all cases where non-compliance occurs.

D&R

3. Planning & Building control

Comment: Risk of bribery if procedures are not followed and appropriate sanctions invoked. A case is currently under investigation.

Resources

4. Finance, Risk and Accountancy Service

Comment: There is a risk that Anti-Fraud officers are bribed to circumvent their investigation. A system is in place to oversee the work of the investigators by managers and declarations of interests are sought from all members of the team.

5. Procurement, Risk and Accountancy Service

Comment: There is a risk that the Council's procurement process is subverted by bribery internally with staff or externally (collusion between suppliers). There are systems in place to mitigate the risk including the need to declare any interests and the requirement to highlight any actual or potential conflicts of interests.

7. Third Sector & External Funding

Comment: Our role as a main funding partner/stakeholder in the provision of grants to external organisations can create financial risks which could include acts of bribery.

8. Human Resources and Workforces Development

Comment: There is a risk that officers are bribed in the recruitment process. Controls are in place to ensure appropriate segregation of duties is in place.

The methodology recommended that where functions had been identified as High or Medium risk, this should be reflected in respective directorate risk registers. This provides for additional controls to be put in place to reduce the likelihood of bribery occurring in these areas.

The overall picture from this assessment is that the council does have a small number of services that may be susceptible to bribery risk.

Audit Committee attention is drawn to Appendix B, which highlights possible significant bribery risks raised by the Head of Audit and Risk Management and the Head of Legal Services (Community) and reported to CMT previously. It is noted some high risk areas originally identified have been assessed as "Low" risk by services, Audit Committee may want to seek assurances this is correct.

Existing organisational procedures/controls

Council's existing key bribery prevention procedures are contained within the following :

- Standard terms and conditions of employment
- Employees' Code of Conduct
- Member Code of Conduct
- Procurement procedure

The Council has the following related procedures:

- Anti-Fraud and Corruption policy

- Anti-money laundering policy
- Whistleblowing policy

The Council also has in place an Anti-Bribery Policy Statement. It sets out the council's commitment to take appropriate steps to reduce the likelihood of bribery as making clear the practices and behaviours that are unacceptable, for example "accept payment from a third party that you know or suspect is offered with the expectation that it will obtain an advantage for them". This Policy Statement has been published on the Council's intranet and made known to existing employees.

In addition to the organisation wide procedures in place to prevent bribery there are also a range of local operational controls that are put in place by manager's e.g. checking unexpected trends/events and where this happens, thoroughly investigating the information which may also include referral to Internal Audit, if necessary.

Appropriate management oversight and the application of the preventative procedures and processes as well as good system design is the key to minimising the likelihood of the council being exposed to bribery risk. Constant vigilance is required by all managers to minimise this risk.

Review of Bribery Risk Assessments

All directorate risk assessments will be reviewed regularly and this will next be done again by the end of March 2017.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

There are no specific financial implications arising from the recommendations within this report. However, the report highlights a number of risks, which if not managed effectively through robust systems and procedures detailed within this report, could expose staff to the risk of bribery and as a consequence have significant financial are reputational implications for the Council.

5. LEGAL COMMENTS

5.1 In order to avoid committing an offence contrary to section 7(1) of the Bribery Act 2010 ('the 2010 Act') it is important for commercial organisations, and which includes the Council, to have in place in place adequate procedures designed to prevent persons associated with it bribes another person.

5.2 Pursuant to section 9 of the 2010 Act, the Secretary of State has published Guidance for commercial organisations to follow and which pursuant to such the Government considers that procedures to put in place by commercial organisations wishing to prevent bribery being committed on their behalf should be informed by six principles. These are: Proportionate Procedures; Top-level Commitment; Risk Assessment; Due Diligence; Communication (including training); and Monitoring and Review.

5.3 In addition to the above, the Council has obligations pursuant to Regulation 3 of the Accounts and Audit Regulations 2015 ('the 2015 Regulations'), the Council is required to ensure that it has a sound system of internal control that 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

5.4 Further, the Council is also required by Regulation 5(1) of the 2015 Regulations to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

5.5 Overarching all this is the Council's Best Value Duty. Specifically, the Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999.

5.6 In bringing this report to highlight the assessment of risk in relation to bribery related risks, this is ensuring compliance with the above duties.

RECOMMENDATIONS AND NEXT STEPS

The Risk management team will ensure the anti-bribery management strategy is adequately maintained and being effectively monitored and reported.

Update and maintain procedures for anti-bribery management strategy.

Continue with the yearly risk assessments taking account of audit findings and whistleblowing information.

6. ONE TOWER HAMLETS CONSIDERATIONS

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

7. BEST VALUE (BV) IMPLICATIONS

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

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

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

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix A – The Bribery Act 2010
- Appendix B – List of possible Bribery Risks previously highlighted to the CMT

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

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

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

- NONE

Officer contact details for documents:
- N/A

Appendix A

1 The Bribery Act 2010

1.1 The Bribery Act 2010 creates 4 new offences. These are:

a) Bribing another person. A person is guilty of this offence where they offer, promise or give a financial or other advantage to another and they intend the advantage to induce a person to perform improperly a relevant activity or to reward a person for the improper performance of such an activity.

b) Being bribed. A person is guilty of this offence where they request, agree to receive or accept a financial or other advantage intending that a relevant activity should be performed improperly whether by them or another person.

c) Bribing a foreign public official. A person is guilty of this offence if they intend to influence a foreign public official in their capacity as a foreign public official and the person intends to obtain or retain business or a business advantage.

d) Failing to prevent bribery. An organisation is guilty of this offence if a person associated with the organisation bribes another person intending to obtain or retain business for the organisation or to obtain or retain an advantage in the conduct of the business for the organisation, unless the organisation can prove that it had in place ‘adequate procedures’ to prevent such bribery.

1.2 The offence described in paragraph 1.1(d) above is a new and wide ranging offence. The Act differs from most forms of legislation because it can render an organisation, e.g. the Council, liable to prosecution as a consequence of the behaviour of its employees or other persons associated with it even if the organisation had no knowledge of such behaviour. It should also be noted that persons associated with an organisation could be an agent or supplier or other body or individual who represents or acts on behalf of the organisation, not just an employee.

1.3 Although the Act itself does not define what constitutes ‘adequate procedures’ the Act requires the Secretary of State to publish guidance regarding the arrangements that can be put in place to prevent bribery being undertaken on its behalf by a person associated with the organisation. By complying with this guidance it is considered that an organisation would be deemed to have in place ‘adequate procedures.’

1.4 In April 2011 the government issued guidance as to what constitutes ‘adequate procedures’. Rather than give specific procedures, the guidance made reference to 6 principles which any organisation could apply to its own situation to ensure it has adequate procedures to prevent bribery and to manage the risk of bribery. These principles are:

a) Proportionality. The action taken by an organisation to prevent bribery should be proportionate to the risks it faces and to the size of the organisation.

b) Top level commitment – the culture within all levels of an organisation, including senior officers, should ensure that bribery is unacceptable.

c) Risk assessment – an organisation should know and be aware of the bribery risks its faces and the level to which it may be susceptible.

d) Due diligence – an organisation should know about those organisations and individuals it does business with.

e) Communication – The organisation should have clear processes and procedures which should be understandable, accessible and communicated to both the employees, to organisations acting on behalf of the organisations, and the organisations and individuals it does business with. They should be comprehensive covering all relevant bribery risks, e.g. gifts and hospitality, overseas expenses etc. The anti-bribery arrangements should be embedded within the organisations processes. Employees and those working with an organisation should be made aware of the policies and procedures regarding bribery. Responsibility for anti-corruption compliance within the organisation should be placed in the hands of a senior manager with appropriate expertise and resource.

f) Monitoring and review – the organisation should monitor the effectiveness of its anti-corruption arrangements to ensure it continues to appropriately manage the risk of bribery faced.

1.5 The aim of this document is to outline the process as to how the Council will assess the potential risk of bribery within the activities of the Council it faces and how it will keep the level of risk under review. By assessing the risk of bribery the Council will:

a) Have a clear view of the level of risk it faces and where in the organisation;

b) Be able to identify actions proportionate to the to risk the Council faces;

c) Aid the Council in minimising the risk of committing the offence of failing to prevent bribery by complying with the principles which constitute ‘adequate procedures’.

Appendix B

List of possible bribery risks previously highlighted to the CMT

- Property disposals (including use of community assets). For example, incentives may be offered to dispose of properties for less than full value.

- Housing tenancies. For example, incentives may be offered to falsify records showing a higher level for accommodation than may be the case.

- Contract award and contract monitoring. For example, incentives may be offered to subvert the Council's procurement procedures such that contracts are unfairly awarded and then not properly enforced.

- Sponsorship. For example, a business may sponsor a Council programme and then be awarded an unrelated contract.

- Grant decisions. For example, gifts may be offered to ensure favourable evaluation of a grant application.

- Regulatory and enforcement activity, including grants of licences and all action taken under the enforcement policy. For example, payments may be made to persuade officers not to take enforcement action in respect of premises operating in contravention of a license under the Licensing Act 2003.

Non-Executive Report of the: ***Audit Committee*** *31st January 2017*	TOWER HAMLETS
Report of: *Zena Cooke - Corporate Director - Resources*	***Classification:*** *Unrestricted*
Forward Plan 2016/17	

Originating Officer(s)	*Minesh Jani, Head of Audit and Risk Management*
Wards affected	*All wards*

1. Purpose of the Report

1.1 The purpose of this report is to present a forward plan of Audit Committee business for 2016/17 financial year.

2. Recommendation

2.1 The Audit Committee is asked to consider the proposed forward plan for committee business as detailed at Appendix 1 for the remainder of this financial year.

2.2 The Audit Committee is also asked to note that any amendments to the plan will be reported as a standard item on the agenda.

3. Background

3.1 The Chair of Audit Committee met with the Corporate Director, Resources and the Head of Audit and Risk Management on 14th August 2015 to consider arrangements to make the business of the Audit Committee more effective. At the meeting, it was agreed a forward plan of Audit Committee business would assist committee members be aware of the programme of audit business and allow the committee to reflect on other items it may wish to consider, within the Audit Committee's remit.

3.2 The purpose of this paper is to set out the business of the Audit Committee for the three remaining meetings for this financial year.

4. Comments of the Chief Financial Officer

4.1 There are no specific financial considerations.

5. Legal Comments

5.1 There are no specific legal considerations.

6. One Tower Hamlets

6.1 There are no specific one Tower Hamlets considerations.

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

7. Best Value Implications

7.1 There are no specific best value implications arising from this report.

8. Risk Management Implications

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

9. Sustainable Action for a Greener Environment (SAGE)

9.1. There are no specific SAGE implications.

10. Crime and Disorder Reduction Implications

10.1. There are no specific Crime and Disorder Reduction implications.

Audit Committee Forward Plan 2015/16

Task	Lead	30-Jun-16	20-Sep-16	08-Nov-16	31-Jan-17	21-Mar-17
1. Audit Committee Effectiveness						
• Review Forward Plan	COA /DOF/HOA		✓		✓	✓
• Approve Terms of Reference, Quorum, Membership and Dates of Meetings (annually)	Audit Committee	✓				
• Carry out Self Assessment of Audit and Anti Fraud Arrangements	HOA / DOF					✓
• Hold an Annual Private Meeting between Chair of Audit and Head of Audit and Risk Management	COA /HOA	✓				
• Determine and Deliver Training Requirements for Audit Committee Members as Required.	COA /HOA		ongoing	ongoing	ongoing	ongoing
2. Internal Audit						
• Annual Head of Audit Opinion	HOA	✓				
• Quarterly Internal Audit Asurance reports	HOA / AM		✓		✓	✓
• Review Internal Audit Strategy and Charter	HOA / DOF	✓				
• Present Annual Internal Audit Plan - 2017/18	HOA / AM					✓
• Present Updated Annual Internal Audit Plan - 2016/17	HOA / AM			✓		
• Annual Schools Report 2014/15	HOA / AM		✓			
3. Anti Fraud and Corruption						
• Annual Fraud Report 2015-16	HOA / CFM	✓				
• Tenancy Fraud Update	CFM					✓
• Progress on National Fraud Initiative 2016/17	CFM			✓		
• Protecting the Public Purse Update	HOA / CFM			✓		
• Anti Fraud and Corruption Strategy	HOA / CFM					✓
• Update Arising From Significant Fraud / Corruption Work	HOA / CFM	★	★	★	★	★
4. External Audit (KPMG)						
• Report to Those Charged with Governance (Council and Pension Fund)	KPMG		✓			
• Monitor Progress of Actions Arising from KPMG ISA 260 report (Council and Pension Fund)	CA				✓	
• Agree annual External Audit Plan in respect of 2015/16 accounts and associated fees.	KPMG	✓				
5. Financial Reporting						
• Review Accounting Policies	CA				✓	
• Consider Annual Financial Statements	CA	✓ (draft)	✓			
• Quarterly Treasury Management Report	CA	✓	✓	✓	✓	✓
• Annual Treasury Management Report	CA	✓				
6. Governance						
• Receive and agree the Annual Governance Statement	HOA		✓ draft			
• Update on implementation of Actions on the Annual Governance Statement	HOA			✓		✓
7. Risk Management & Assurance						
• Annual Risk Management Report 2015/16	HOA		✓			
• Review and Monitor of the Council's Strategic Risks	Audit Committee	✓ Strategy	✓	✓	✓	✓
• Bribery Risk Assessment	HOA				✓	

Key

COA - Chair of Audit
DOF - Corporate Director, Resources
HOA - Head of Audit and Risk Management
AM - Audit Manager
CFM - Corporate Fraud Manager
KPMG - External Auditors
CA - Chief Accountant
★An update to be provided to the Committee as and when significant issues arise.

Note: outside the formal Committee meetings, members will also review the following:
• Draft Annual Governance Statement (May)
• Terms of reference (May)

Chair of Audit's Meeting with DOF and HOA (provisional)

27 January 2017
17 March 2017

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