

AUDIT COMMITTEE

Thursday, 29 March 2018 at 7.00 p.m.

C1, 1st 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 Danny Hassell

Councillor Ayas Miah, Councillor Ohid Ahmed, Councillor Andrew Wood and Councillor Rabina Khan

Deputies:

Councillor Rajib Ahmed, Councillor Shiria Khatun, Councillor Marc Francis, Councillor Harun Miah, Councillor Craig Aston and Councillor Shafi Ahmed

[The quorum for this body is 3 Members]

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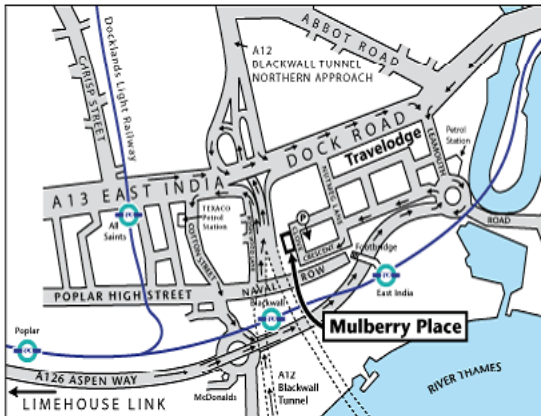
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APOLOGIES FOR ABSENCE

- | | |
|---|------------------|
| 1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST | 5 - 8 |
| <p>To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer.</p> | |
| 2. MINUTES OF THE PREVIOUS MEETING(S) | 9 - 18 |
| <p>To confirm the minutes of the Audit Committee held on 23rd January 2018.</p> | |
| 3. KPMG ITEMS FOR CONSIDERATION | 19 - 42 |
| 4. TOWER HAMLETS ITEMS FOR CONSIDERATION | |
| 4 .1 Quarterly Assurance Report | 43 - 60 |
| 4 .2 Children's Services Presentation on Risk | |
| <p>A presentation will be given at the meeting.</p> | |
| 4 .3 Whistleblowing Update | 61 - 68 |
| 4 .4 Corporate Anti-Fraud and Corruption Strategy | 69 - 92 |
| 4 .5 Internal Audit Plan 2018/19 | 93 - 148 |
| 4 .6 Treasury Management Update Report For Quarter Ending December 2017 | 149 - 168 |
| 5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT | |

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Agenda Item 1

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

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

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

Interests and Disclosable Pecuniary Interests (DPIs)

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

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

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

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

Effect of a Disclosable Pecuniary Interest on participation at meetings

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

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

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

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

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

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

Further advice

For further advice please contact:-

Asmat Hussain, Corporate Director of Governance and Monitoring Officer 0207 364 4800

APPENDIX A: Definition of a Disclosable Pecuniary Interest

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

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

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.04 P.M. ON TUESDAY, 23 JANUARY 2018

MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,
LONDON E14 2BG.

Members Present:

Councillor Candida Ronald (Chair)
Councillor Danny Hassell
Councillor Ohid Ahmed
Councillor Andrew Wood
Councillor Shafi Ahmed – deputising for Cllr Khan

Apologies:

Councillor Ayas Miah
Councillor Rabina Khan

Officers Present:

Zena Cooke	Corporate Director, Resources
Paul Greeno	Senior Corporate and Governance Lawyer, Legal Services
Minesh Jani	Head of Audit and Risk Management, Resources
Neville Murton	Divisional Director, Finance, Procurement & Audit
Robin Payne	Interim Divisional Director, Public Realm
Judith St John	Divisional Director, Sports, Leisure and Culture
Heather Daley	Divisional Director, HR & Transformation
Janet Fasan	Divisional Director, Legal
Vicky Clark	Divisional Director for Economic Growth and Development
Tony Qayum	Anti-Fraud Manager, Risk Management , Resources
Anthony Sotande-Peters	Interim Strategic Risk Advisor, Risk Management and Audit
Matthew Twohig	Green Team Coordinator
Hillary Kelly	Head of Repairs, Tower Hamlets Homes
Farhana Zia	Committee Services Officer

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of discloseable pecuniary interest were disclosed by the Members.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the 16th November 2017 were agreed to be an accurate record of the meeting and were signed off by the Committee.

The Chair, in reference to page 12 stated the Members will report back on their views in relation to the Kent County Council presentation on risk at the March meeting of the Committee.

3. KPMG ITEMS FOR CONSIDERATION

Neville Murton, Divisional Director for Finance, Procurement and Audit presented this report on behalf of KPMG.

He stated the Annual Report on "Grants and Returns 2016/17" summarised the work KPMG had done on the Council's grant claims and returns.

This included work they had completed under the Public Sector Audit Appointment certificate arrangements as well as work completed on other grants/returns under separate engagement terms. The work completed in 2016/17 was in relation to:

- The Council's 2016/17 Housing Benefit Subsidy claim which had a value of £268 million
- The Teachers' Pensions Return (total contributions of £28.3 million) and
- The Pooling of Housing Capital Receipts return (a value of £41.9 million)

Neville Murton referred Members to page 22 of the agenda and stated the Teacher's Pension fund return was in regard to the rounding of figures and there was a minor discrepancy of £11,000 - Small in the grand scheme of things. The Teachers' Pension Fund had been written to and the Auditors have agreed no further action is required.

Members of the Committee asked the following questions:

- Could you confirm that the Teachers' Pension fund was only to do with the rounding up of figures?

Members of the Audit Committee **NOTED** the report.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Risk Presentation on Children's Services

The Chair, Councillor Ronald informed Members that due to a scheduling issue, the Children's Directorate would be presenting their presentation on risk at the next meeting of the Committee.

Cllr Ohid Ahmed expressed concern and said it was important to receive a report from the Directorate.

The Chair, clarified the presentation would be in relation to 'risk' and would be a deep dive looking at this area and was not specifically in relation to the OfSted report.

4.2 Quarterly Internal Audit Assurance report

Minesh Jani, Service Head for Risk Management presented the Quarterly Internal Management report covering the period of September 2017 to December 2017.

The report set out the assurance rating for each audit finalised in the period and gave an overall assurance rating. He made reference to page 28 and the table which showed the total number of audits conducted and the assurance level they had achieved. He also referred Members to the table on page 29, 6.1 which showed how the internal audit service was performing against KPI indicators and the targets achieved.

88% of Priority 1 Audit recommendations had been implemented and 87% of Priority 2 recommendations had also been implemented.

Members of the Committee heard further from the Officer in the following services:

Management and Control of Corporate Purchase Cards

Neville Murton, Divisional Director for Finance, Procurement and Audit informed Committee Members a considerable amount of work had been done to decrease the use of Purchase Cards.

The complete process of how Purchase Cards are issued and to whom plus guidance on their usage had all been reviewed and processes had been tightened and cross matched with the Council's accounting system Agresso.

This had made the whole process more robust and all existing and new Purchase Card Holders were required to sign new conditions for use. Whilst the Council was moving away from using Purchase Cards, there are areas of the Council where usage of the Purchase Cards allows them extra flexibility to purchase goods and services.

Members made the following comments:

- Is there a limit on the number of card holders in each team and in the organisation as a whole?
- Have staff been made aware of reclaiming VAT on purchases.
- Members were pleased to see a reduction in the usage of Purchase Cards and the amount expended and **NOTED** there would be a follow up Audit in six months.

Monitoring and Delivery of Economic Benefits

Vicky Clark, Divisional Director for Growth and Economic Development stated she welcomed the internal audit report and the recommendations made therein. She said in relation to recommendation 1 and 5, the policy, procedures and processes had been reviewed and the Council was looking to ensure Social Value principles were embedded into contracts.

With regard to recommendation 2, this was an ongoing exercise. High value contracts had been scrutinised however the challenge now was to examine the low end contracts. Recommendation 3 and 4 required further work and engagement with Contract Managers.

Members made the following comments:

- Are you confident you can move forward from the current position once the social value toolkit has been embedded into processes and procedures?
- With regard to Economic Growth and Benefit, who has ownership of this area? Which Directorate is responsible?
- It would be useful for future Committee meetings if information on how much each programme is delivering in terms of social value can be provided.
- How is the work of the Economic Growth and Development team communicated to others?

Establishment Control – Follow up Audit

Heather Daley, Divisional Director for Human Resources provided an update on the progress made in relation to the risks identified by Internal Audit. She said one of the key issues the service faced was that there was not a single point of access to data held by Human Resources. They worked with several systems and it was a struggle to keep them all up to date.

With regard to the recommendation 1, HR had reminded managers to update the establishment lists. A reminder is sent to managers, and HR checks if they are compliant.

Second, the data received needs to be reconciled with Agresso but more work is required. The IT directory also needs to be reconciled with HR data if the organisation wants to move forward. The systems used are imperfect however it is essential that any new system procured does not replicate the problems that the service is currently facing.

Members made the following comments:

- How long do you think you will need to get to a position where data held and systems are working in tandem?
- You have said ResourceLink is an imperfect system. Is there a timeframe as to when data will be migrated from this system to a new one?

Community Language Service – Follow up

Judith St John, Divisional Director for Sports, Leisure and Culture stated the Community Language Service had embarked on a long road of improvements and the key issues identified in the Internal Audit report had been addressed.

Registers had been introduced at each setting and tutors had been advised to keep accurate records of attendance. Curriculum planning and a new teacher's handbook had been produced. The recruitment of tutors and payment of salaries is reconciled with the register of attendance and timesheets.

Performance monitoring had been enhanced with the introduction of regular unannounced visits and where concerns had been identified, the system is marked with a red flag. Where possible, classes had been moved from inappropriate community settings to the IDEA stores and this had received positive feedback.

Members made the following comments:

- When was the early GCSE programme stopped?
- The recommendations were made in June 2016 and this was a follow up visit by Audit. Why has it taken so long to implement the recommendations?
- Minesh Jani stated 2 recommendations have not been implemented. What progress are you making with the 2 outstanding recommendations?
- Great to hear of the noticeable improvement in this service and the positive feedback received. It would be helpful to receive qualitative feedback in terms of Quality Assurance.

Control and Monitoring of Members' Gifts and Hospitalitys

Janet Fasan, Divisional Director for Legal stated guidance had been issued to Members in October 2017 on the receipt of Gifts and Hospitalitys. It defined the reporting requirements, timeframe and included examples of frequently asked questions. She informed Members the Standards Committee had approved the revised guidance and training on governance had also taken place.

Members made the following comments:

- If Members have nothing to declare, they should provide a nil return every three months.

Discussion took place as to if members should be completing more paperwork. It was **AGREED** it could be part of the DPI declaration completed by Members annually and this would be conveyed back to the Corporate Director of Governance.

Management of Housing Disrepairs

Hillary Kelly, Head of Repairs at Tower Hamlets Homes said she welcomed the internal Audit inspection and shared their concerns. She said the organisation had undergone a restructure and the lines of duties, role and responsibilities had been made clearer. Ms Kelly said the project team was putting together the business case for a new case management system and

the new process was being mapped out with the Council's legal team to ensure governance processes and procedures were to the required standards. She hoped to have the initial scoping policy by March 2018 and implementation by June 2018. Ms Kelly also indicated that a follow-up audit would be welcomed after implementation.

- Members had no questions for Ms Kelly other than the management comments on page 50 could have been more detailed.

Inspections of Playgrounds

Robin Payne, Interim Divisional Director for Public Realm stated that of the 5 recommendations made by internal audit, the service has worked hard to implement the changes expected. The procedure relating to weekly, quarterly and annual inspection of parks and playgrounds had been captured into a single document which makes clear the processes and procedures for the inspectors to follow. In addition the recording of inspection has been improved with better software devices and as resulted in the quicker repairs of broken equipment.

Members made the following comments:

- How is the service performing in relation to the delivery and fixing of equipment? Equipment in Millwall Park and Ropemakers Fields having missing equipment that has not been replaced.
- It is reassuring that you have an understanding of the risks and have tightened up processes in relation to the inspection of playground equipment.

Programme and Project Management

Neville Murton, Divisional Director of Finance, Procurement and Audit stated that the review of the Programme and Project Managements systems was initiated to identify any weaknesses in the system, in relation to the delivery of the Medium Term Financial Strategy (MTFS) projects. He said the recommendations made had assisted in completing a full diagnostic review of processes and as such they were moving forward with the Project Management and the delivery of projects.

- Members of the Committee had no questions in relation to this update.

Members of the Committee **NOTED** the contents of the report and took into account the assurance opinion assigned to the systems reviewed during this period.

4.3 Whistleblowing Update

Paul Greeno, Senior Corporate and Governance Lawyer introduced his report by stating that this was the first quarterly update to the Committee since it was agreed that Whistleblowing would be reported to the Audit Committee.

He referred Members to point 3.1 which detailed the number of cases dealt with since April 2016. 41 Whistleblowing concerns had been raised of which

30 had been investigated and closed. With regard to the 30 cases, 4 were upheld, 3 were closed as further information was required and 2 were referred to other agencies. 21 cases were not upheld.

Mr Greeno also referred Members to point 3.2 and the lessons learnt from cases investigated. In particular he drew attention to the use of card purchases and the review spoken about earlier in the meeting.

Members of the Committee asked the following questions:

- It is positive to see the level of whistleblowing reported. How do you keep individuals who have reported an incident updated with the progress of the investigation?
- What level of interaction takes place between Whistleblowing and the Corporate Anti-Fraud team?
- How is the success of whistleblowing outcomes reported back to staff?

The Audit Committee **NOTED** the whistleblowing update and the investigation monitoring information contained in Appendix 1 of the report.

4.4 Anti-Fraud Update

Tony Qayum, Corporate Anti-Fraud Manager presented his report outlining the work of his team and the investigations they had undertaken. In particular he referred Members to the table at 4.1 and stated the 'Fraud Proven' target of Social Housing would increase to 50 and the team who easily achieve this target. He referred to 5.1.4 of the report and said the team had met with Departmental Leadership Teams and had undertaken Anti-fraud roadshows to raise awareness and improve engagement with Directorates.

Members of the Committee had no questions for Mr Qayum.

The Audit Committee **NOTED** the contents of the report.

4.5 Quarterly Risk Management Update Q3 2017/18

Minesh Jani, Head of Risk Management presented his report on the Corporate Risk Register. He referred Members on the table on page 95 of the agenda which showed the number of corporate risks by Directorate for quarter 3, 2017/18.

In addition he referred Members to the table on page 96 which showed the associated risks in relation to corporate priorities.

He stated the Corporate Risk Register required a refresh and work was underway to consult with Directorate Leadership Teams to identify risks as well as raise awareness through Risk workshops with staff.

Members of the Committee asked the following questions:

- The Risks identified in appendix 1, page 99 are 6 months old. When will the Register be updated to show current risks?
- What is the timeframe to introduce the concept of Officers/Managers owning the Risk and updating the corporate register?

Zena Cooke, Corporate Director for Resources suggested that the committee may wish to keep Risk Management as a standing item on the agenda, as a discursive item while the Risk Register was updated.

Members of the Committee **AGREED** with this suggestion.

Members of the Committee **NOTED**

1. The corporate risks and recommended changes and updates as necessary;
2. Requested risk owner(s) requiring further scrutiny provide a detailed update on the treatment and mitigation of the risk including impact on the corporate objectives at its next meeting; and
3. Determined 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 objectives.

4.6 Treasury Management Strategy Statement For 2018-19

Neville Murton, Divisional Director for Finance, Procurement and Audit introduced the report stating the report detailed the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

He made reference to the Capital programme and said this would be updated before it goes to Full Council in February. Mr Murton stated the Council had not borrowed externally and was working with its Treasury Management Consultants – Arlingclose to ensure the Council's capital expenditure is realistic and achievable.

Mr Murton continued stating there would be a further report coming back to the Committee which outlined in detail the proposals for investment and the products it would invest in.

Members of the Committee made the following observation:

- That the heading on the table on page 129 did not correspond with the headings on the table page 144, and requested this be corrected.

The Audit Committee **NOTED** the recommendations listed on page 124 of the agenda to recommend 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 the 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 amend prudential and treasury indicators, once capital expenditure forecast is firmed up.
 - Use alternative forms of investment, such as pooled funds should the appropriate opportunity arise to use them, and should it be prudent and of advantage to the Council to do so.

4.7 Draft Accounting Policies 2017-18 and 2018-19

Neville Murton, Divisional Director for Finance, Procurement and Audit presented this report which detailed the accounting policies which would be implemented during the financial year 2017-18 and reflected in the published Statement of Accounts for that period.

Mr Murton referred Members to Appendix A which included the draft accounting policies for 2017-18 and which summarised the main content of the policies and recent changes made to it. Mr Murton said the draft accounting policies had remained largely unchanged and the report was for Members to note.

The Audit Committee **NOTED** the recommendation to

1. Approve the accounting policies and comment upon the draft.

4.8 Updated Annual Internal Audit Plan 2017-18

Minesh Jani Head of Risk Management informed Members the Annual Internal Audit Plan for 2017-18 had been updated and asked members to note the changes.

The Audit Committee **NOTED** the changes to the Internal Audit Plan 2017-18.

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

No other urgent business was discussed.

The Chair reminded members that the next meeting of the Audit Committee was scheduled for Thursday, 29th March 2018 at 7:00 p.m.

The meeting ended at 8.56 p.m.

Chair, Councillor Candida Ronald
Audit Committee



External Audit Plan 2017/18

London Borough of Tower Hamlets

March 2018

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting (“the Code”) in 2017/18, which provides stability. Deadlines for producing and signing the accounts have advanced. This is a significant change and needs careful management to ensure the new deadlines are met. The Authority successfully advanced its accounts production last year, and has plans in place to make the further advances needed to meet the new deadlines. As such we do not feel that this represents a significant risk, although it is still critically important. To meet the revised deadlines it is essential that the draft financial statements and all ‘prepared by client’ documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2017.

Authority significant risks

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

Valuation of land and buildings: Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated;

Pension liabilities: The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation;

- **Grant payments/property leases:** 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. In the 2015/16 and 2016/17 financial years, a small number of grant payments have been identified that were not made in accordance with all of the conditions set by Commissioners (appointed by the Secretary of State for Communities and Local Government (SoS for CLG) following the Best Value Inspection, from December 2014 to March 2017). Specifically for the organisations receiving the grant there was no formal agreement in place setting out the agreed use/occupation of the property. Thus for 11 organisations (50 payments) in 2015/16 and 5 organisations (20 payments) in 2016/17, the Authority has concluded that no formal property agreement was in place. Therefore these payments (£151,000 in 2015/16; and £79,000 in 2016/17) were considered to be unlawful and where disclosed in the respective years’ financial statements. The total value of grant payments made for the relevant grant claim streams over the two financial years was £6.3 million. We will continue to test grant payments made to ensure they are made in accordance with relevant conditions; and
- **Declarations of interest:** In 2015/16 we noted some weaknesses in the Authority’s systems and approach to the new requirement for all staff to complete an annual declaration of interest. The Authority has taken significant steps to address issues and ensure systems and processes are more robust. The most recent Internal Audit report (August 2017) however, only gave a ‘limited’ assurance on the basis of weaknesses/issues identified. We will review steps taken to address issues raised by Internal Audit.

Pension fund significant risks

- **Valuation of investments:** The pension fund invests in a range of assets and funds, some of which are inherently harder to value. We will verify a selection of investments to third party information and confirmations.

Value for Money Audit

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk to date:

- **Best Value Improvement Plan:** The SoS for CLG decided to end the 2014 Directions (applied after the 2014 Best Value Inspection) and not extend the appointment of the Commissioners beyond March 2017 in recognition of the Authority's progress. In light of the work that the Authority has identified as still needing to be completed, the SoS CLG made three new, less intrusive Directions (in force until 30 September 2018) which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the Best Value improvement plan to the SoS CLG; and set up an independent review of achievement of the BV improvement plan with a report to the SoS CLG by 1 August 2018.

Also an Ofsted inspection undertaken in January and February 2017 rated the Authority's services for children in need of help and protection, children looked after and care leavers and the local safeguarding children board inadequate overall with some features requiring improvement. The Authority has established a Children's Services Improvement Board led by an Independent Chair and agreed an Improvement Plan. Ofsted are carrying out quarterly monitoring visits to ensure that its recommendations are being robustly addressed. The Children's Service Improvement Board will continue to focus on the themes identified in the Ofsted report looking at progress made and providing support and challenge on areas of on-going work. Quarterly progress updates will be provided to the Best Value Improvement Board and the Council's Cabinet and Overview and Scrutiny Committee.

We will review the work undertaken by the Authority to consider the progress in implementing the Best Value and Children's Services Improvement Plans and the extent of embeddedness within the Authority to the extent that this can be assessed during 2017/18.

Other information

Logistics and team

Our team is led by Andrew Sayers – Partner, and Antony Smith – Manager.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan, and a Report to Those Charged With Governance.

Fees

Our fee for the 2017/18 audit is £209,918 (£231,996 2016/2017 – note that this includes £22,078 for additional work needed in relation to the Best Value Inspection and associated risks, but does not include fees that will be needed to consider the objection received in relation to the Authority's PFI schemes which we accepted in December 2017). The 2017/18 fee is in line with the scale fee published by PSAA, but additional work may be needed in relation to the Best Value and Children's Services Improvement Plans. Any additional fees will need approval by PSAA.

Acknowledgement

We thank officers and Members for their continuing help and cooperation throughout our audit.

The contacts at KPMG in connection with this report are:

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Page 22

Headlines

1. Introduction	4
2. Financial statements audit planning	5
3. Value for money arrangements work	13
4. Other matters	17

Appendices

- 1: Key elements of our financial statements audit approach
- 2: Independence and objectivity requirements
- 3: Quality framework

This report is addressed to the London Borough of Tower Hamlets (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. PSAA 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 PSAA'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, you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

1. Introduction

Background and statutory responsibilities

This plan supplements our 2017/18 audit fee letter 2017/18 dated 21 April 2017, which set out details of our appointment by PSAA.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the NAO's Code of Audit Practice and the PSAA Statement of Responsibilities.

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

- **Authority and Pension Fund Financial statements:** Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; 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).

Page 23

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. Any change to our identified risks will be reported to the Audit Committee.

Financial statements audit

Our financial statements audit follows a four stage process:

- Financial statements audit planning
- Control evaluation
- Substantive procedures
- Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

Value for Money

Our Value for Money (VFM) arrangements work follows a five stage process:

- Risk assessment
- Links with other audit work
- Identification of significant VFM risks
- Review work (by ourselves and other bodies)
- Conclude
- Report

Pages 13 to 15 provide more detail on these stages. This plan concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.

2. Financial statements audit planning

Financial statements audit planning

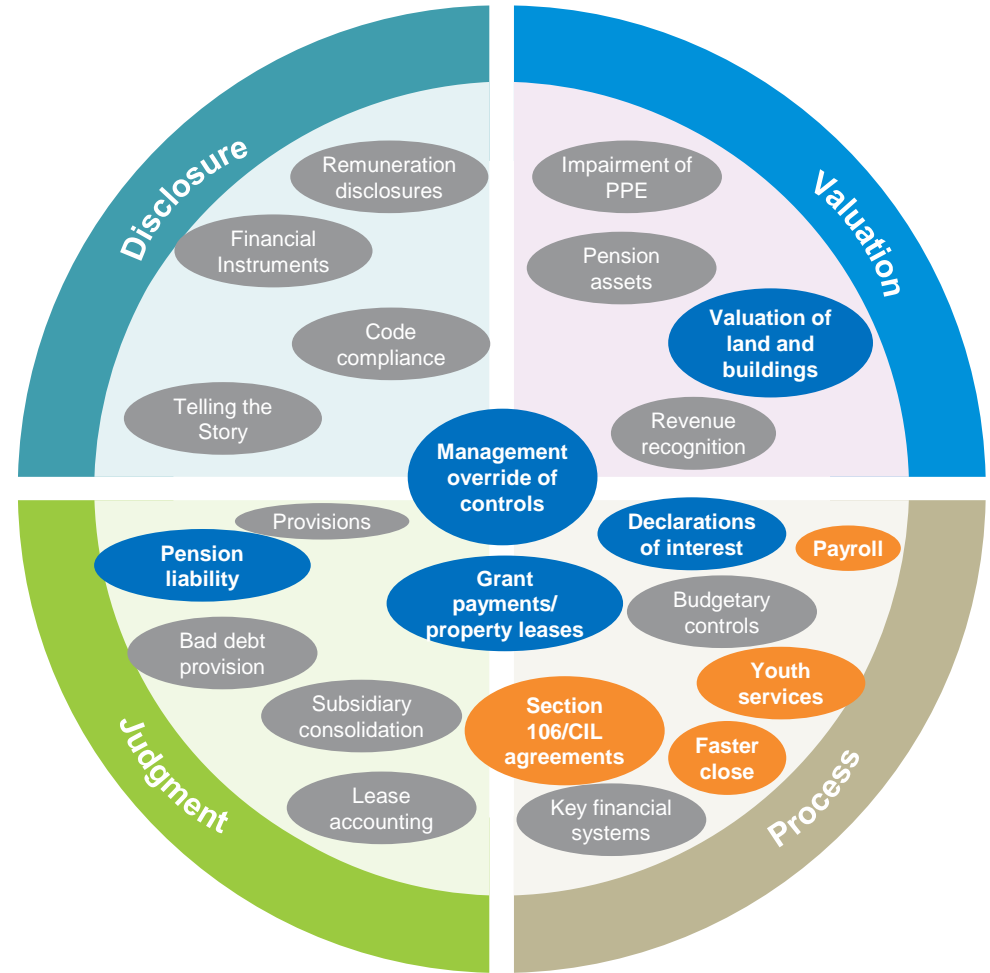
Our planning work takes place December to January 2018 and involves: determining materiality; risk assessment; identification of significant risks; consideration of potential fraud risks; identification of key account balances and related assertions, estimates and disclosures; consideration of Management's use or experts; and issuing this plan to communicate our audit strategy.

Authority risk assessment

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

Management override of controls: Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit 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 (90% of the total of £83 million in 2016/17)). We will therefore combine this work with the other area of focus for section 106/CIL agreements.



Key: ● Significant risk ● Other area of audit focus ● Other areas considered

2. Financial statements audit planning

Authority significant audit risks

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

Valuation of land and buildings

Risk: The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at year end.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will assess the risk of the valuation changing materially in year. We will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including the underlying data and assumptions).

Pension liabilities

Risk: The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the London Borough of Tower Hamlets Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach: We will review controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will liaise with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will evaluate the competency, objectivity and independence of Hymans Robertson.

We will review the appropriateness of key assumptions in the valuation, compare them to expected ranges, and consider the need to make use of a KPMG actuary. We will review the methodology applied in the valuation by Hymans Robertson. In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

2. Financial statements audit planning

Authority significant audit risks (continued)

Grant payments/ property leases

Risk: In 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 (the responsibility for grant payments was returned to the Authority in 2016).

In the 2015/16 and 2016/17 financial years, a small number of grant payments have been identified that were not made in accordance with all of the conditions set by Commissioners. Specifically for the organisations receiving the grant there was no formal agreement in place setting out the agreed use/occupation of the property. Thus for 11 organisations (50 payments) in 2015/16 and 5 organisations (20 payments) in 2016/17, the Authority has concluded that no formal property agreement was in place. Therefore these payments (£151,000 in 2015/16; and £79,000 in 2016/17) were considered to be unlawful and where disclosed in the respective years' financial statements. The total value of grant payments made for the relevant grant claim streams over the two financial years was £6.3 million.

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

Declarations of interest

Risk: Declarations was an on-going area of concern for the Authority's Commissioners, particularly about whether declarations were 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.

The Authority has taken significant steps to address issues and ensure systems and processes are more robust, for example over 99% of staff had completed a declaration, and there is a specific HR team set up to work on and monitor completion of declaration of interests, and provide support and training to staff and line managers.

However, the most recent Internal Audit report (August 2017) only gave a 'limited' assurance on the basis of weaknesses/issues identified including: a lack of written procedures; inconsistent management actions in response to declarations made by staff; declarations found to be incomplete (when compared with 'open search' material); and a lack of declarations for family relationships within the Authority.

Approach: We will therefore consider the Authority's actions taken and any follow up work undertaken by Internal Audit and consider what/whether any testing should be undertaken in 2018.

2. Financial statements audit planning

Authority 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.

Faster close

Risk: In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its accounts production timetable so that draft accounts were ready by 14 June 2017 (accounts were signed on 29 September 2017). Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.

To meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. There are logistical challenges that will need to be managed including:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, and schools) are aware of the revised deadlines and have made arrangements to provide the output of their work accordingly;
- Revising the closedown and accounts production timetable to ensure that all working papers and supporting documentation are available at the start of the audit;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline. There is an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not seen as a breach of deadlines.

Approach: We will continue to liaise with officers in preparation for our audit to understand the steps the Authority is taking to meet the revised deadlines. We will look to advance audit work into the interim visit to streamline the year end audit work. Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

2. Financial statements audit planning

Authority other areas of audit focus (continued)

Section 106/CIL agreements

Risk: This has historically been highlighted as an area of concern by Commissioners. The Authority has responded positively to an independent review of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements, and matters arising from our 2015/16 testing had been, or were being, addressed when we reviewed the position for 2016/17.

In respect of the independent review in 2016, all recommendations have been implemented except those that require the implementation of a new software system which had been procured. The Authority is in the process of linking CIL, Accolade and Agresso and the links will need to be fully tested before final implementation.

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. We will also review progress on the new system implementation.

Payroll

Risk: Payroll represents a significant proportion of the Authority's annual expenditure (approaching 38% of gross spend at £477 million in 2016/17). 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.

Youth services

Risk: Reviews have uncovered historical shortcomings and wide spread malpractice in the Authority's youth service. We have noted that the Authority had completed the interim actions to stabilise the Service. In December 2016 the Authority agreed to implement a proposal to transform the Council's youth service. This includes a restructure of the youth service, from January 2017 to enable the service to be delivered through a combination of internal resources and external commissioning. The new approach is also aimed at resolving the longstanding issues associated with service values and culture through a three year strategic and operational plan.

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.

2. Financial statements audit planning

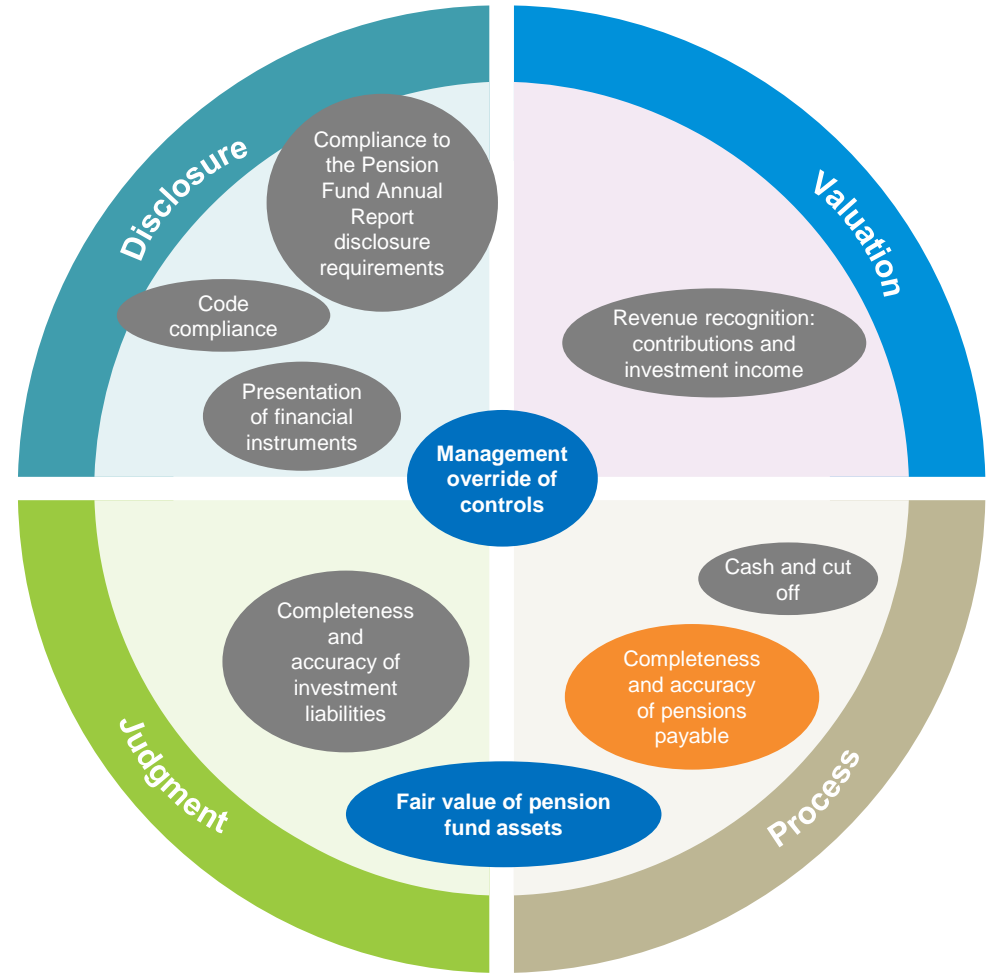
Pension Fund risk assessment

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

— **Management override of controls:** Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit incorporates the risk of Management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

Fraudulent revenue recognition: We do not consider this to be a significant risk for local authority Pension Funds 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.

Page 29



Key: ● Significant risk ● Other area of audit focus ● Other areas considered

2. Financial statements audit planning

Pension Fund significant audit risks

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

Valuation of investments

Risk: The Pension Fund invests in a wide range of assets and investment funds. At 31 March 2017 the Pension Fund had investment assets totalling £1.37 billion. 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 2017/18.

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.

Page 30

Pension Fund 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.

Calculation of benefits

Risk: The calculation of benefits can be complex. In 2016/17 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.

2. Financial statements audit planning

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 £17.5 million which equates to 1.4% of 2016/17 Authority expenditure. The threshold above which individual errors are reported to Audit Committee is £850,000.

For the Pension Fund materiality for planning purposes has been set at £17.5 million which equates to 1.3% of 2016/17 net assets. The threshold above which individual errors are reported to Audit Committee is £850,000.

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 £850,000.

In the context of the Pension Fund we propose that an individual difference could normally be considered to be clearly trivial if it is less than £850,000.

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

3. Value for money arrangements work

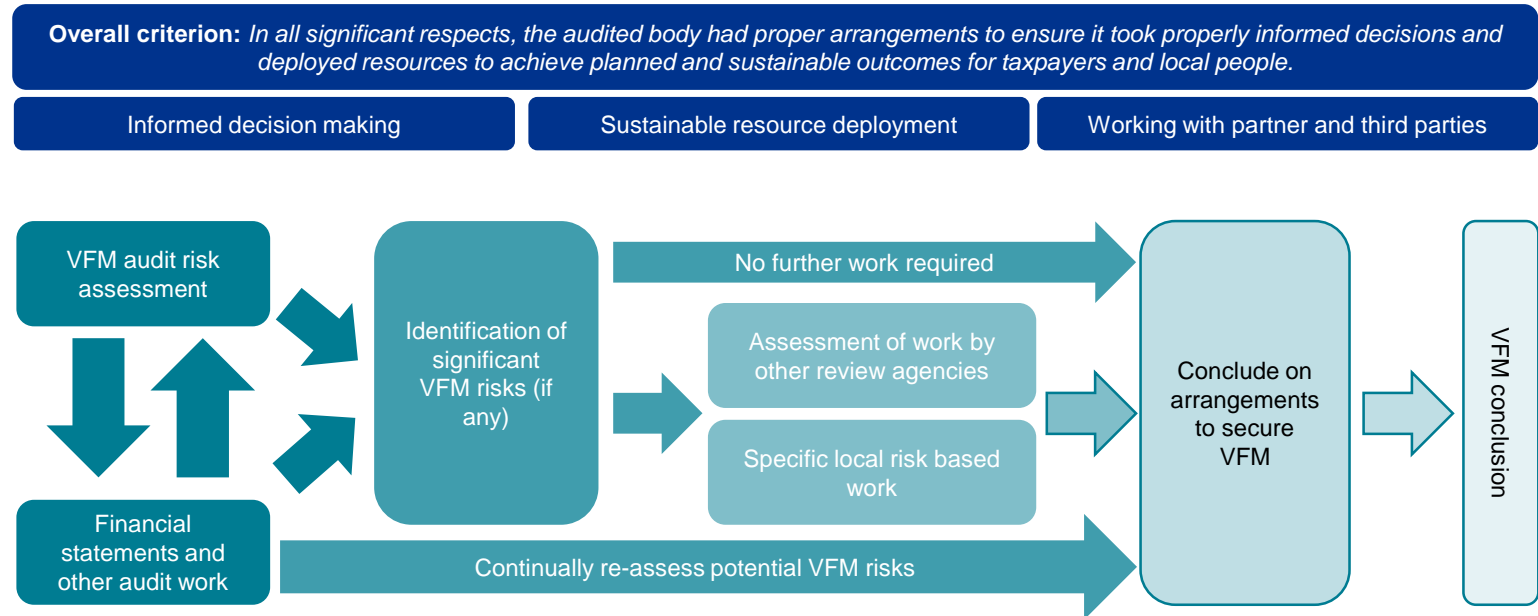
For our value for money conclusion we are required to work to the NAO Code of Audit Practice (issued in 2015 after the enactment of the Local Audit and Accountability Act 2014).

Our approach to VFM work follows the NAO's new guidance that was first introduced in 2015-16, is risk based and targets audit effort on the areas of greatest audit risk.

We have planned our audit to draw on our past experience of delivering this conclusion and have updated our approach as necessary. We will also consider reports from your regulators and review agencies.

The Local Audit and Accountability Act 2014 requires auditors of Local Government Bodies to be satisfied that the organisation "has made proper arrangements for securing economy, efficiency and effectiveness in its Value for Money". 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 process is shown in the diagram below:



We have completed our initial VfM risk assessment and have identified one significant risk for the VfM conclusion (see overleaf for details). We will keep this under review during our audit and notify the Audit Committee of any change.

3. Value for money arrangements work

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 Improvement Plans (Best Value and Children's)

Risk: The SoS for CLG decided to end the 2014 Directions (applied after the 2014 Best Value Inspection) and not extend the appointment of the Commissioners beyond March 2017 in recognition of the Authority's progress. In light of the work that the Authority has identified as still needing to be completed, the SoS CLG made three new, less intrusive Directions (in force until 30 September 2018) which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the Best Value improvement plan to the SoS CLG; and set up an independent review of achievement of the BV improvement plan with a report to the SoS CLG by 1 August 2018.

Also an Ofsted inspection undertaken in January and February 2017 rated the Authority's services for children in need of help and protection, children looked after and care leavers and the local safeguarding children board inadequate overall with some features requiring improvement. The Authority has established a Children's Services Improvement Board led by an Independent Chair and agreed an Improvement Plan. Ofsted are carrying out quarterly monitoring visits to ensure that its recommendations are being robustly addressed. The Children's Service Improvement Board will continue to focus on the themes identified in the Ofsted report looking at progress made and providing support and challenge on areas of on-going work. Quarterly progress updates will be provided to the Best Value Improvement Board and the Council's Cabinet and Overview and Scrutiny Committee.

Approach: We will review the work undertaken by the Authority to consider the progress in implementing the Best Value and Children's Services Improvement Plans and the extent of embeddedness within the Authority to the extent that this can be assessed during 2017/18.

VFM sub-criterion: This risk is related to the following Value For Money sub-criterion:

- Informed decision making; and
- Working with partners and third parties.

3. Value for money arrangements work

VFM other areas of focus

Those risks with less likelihood of giving rise to a significant VFM risk but which are nevertheless worthy of audit understanding.

Medium Term Financial Strategy

Risk: Local Authorities continue to be subject to a challenging 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 an under spend (of around £1.5 million) for 2017/18. The Authority's balanced budget for 2017/18, includes the delivery of £26 million of approved savings plans (£20 million for 2017/18 and £6 million slippage from 2016/17).

The reported net underspend includes some significant pressures. There is a £10.5 million overspend forecast in Children's Services. This is mainly due to social care (and reflects the national picture, with the Local Government Association reporting that 75% of Council's reporting overspends in this area). The overspend in part reflects one-off costs of £4.2 million (spread over two years) as part of the Council's Improvement Plan responding to Ofsted's inspection reported in April 2017. The Council is also dealing with increased demand (such as a 15% increase in caseload, 41% more monthly contacts, and 66% more referrals); and addressing the balance of older children within its care systems (as they are both more costly and have an impact on costs when the children become adults as some costs fall on the children's services budget – meaning there will be an increase in caseload in the short-term. For adult services there have also been pressures on social care budgets, but these have been mitigated by increased funding from the Improved Better Care Fund and new Adult Social Care Grants. However, the Council is also reporting that there will be a £13.7 million under spend on its corporate costs budget, which includes provisions for unforeseen events (contingencies) and Council wide budgets for savings, growth and inflation.

The Authority's latest MTFS includes a further £36 million in savings schemes/projects that will need to be delivered during the three years 2018/19 to 2020/21, the vast majority of which have been approved and are in the process of being finalised. General Fund reserves are estimated to be £26.5 million at 31 March 2021, £5.2 million less than as at 31 March 2017. Also the level of earmarked reserves are projected to fall by £96 million to £39 million by 31 March 2021. Of the £96 million being used, the majority (£64 million) reflects significant investments by the Authority in relation to new Civic Centre; ICT and transformation projects; and delivering Mayoral priorities, with the remaining £32 million included within annual budgets over the four years to 2021.

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 Strategy, 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.

VFM sub-criterion: This risk is related to the following Value For Money sub-criterion: Informed decision making; Sustainable resource deployment; and Working with partners and third parties.

Page 34

3. Value for money arrangements work

VFM other areas of focus (continued)

'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. The final report was considered by the Council in July 2017. All matters identified as requiring further action have been allocated to a Corporate Director/Divisional Director to address. The Corporate Leadership Team will monitor progress every other month until all the matters have been completed. Quarterly reports on progress will be submitted to the Overview and Scrutiny Committee and if required to Cabinet. The Standards Advisory Committee will also receive regular reports as some of the issues raised fall within its terms of reference.

Approach: We will consider the Authority's progress in addressing the actions identified and may undertake further work if considered necessary to fulfil our audit responsibilities.

VFM sub-criterion: This risk is related to the following Value For Money sub-criterion: Informed decision making; and Working with partners and third parties.

4. 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 2017/18 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 where we interview an officer and review evidence to form our decision to a more detailed piece where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. Costs incurred responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with PSAA's fee scales.

Our audit team

Your audit team has been drawn from our specialist public sector assurance department and is led by two key members of staff:

Andrew Sayers: your Partner has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the Audit Committee, the Chief Executive and Corporate Director of Finance and Resources.

- **Antony Smith:** your Manager is responsible for delivery of all our audit work. He will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk, tax, clinical or information specialists as necessary to deliver the plan.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but in ensuring that the audit team is 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 required to be independent and objective. Appendix 2 provides more details of our confirmation of independence and objectivity.

4. Other matters

Audit fee

Our Audit Fee Letter 2017/2018 issued in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the Corporate Director of Finance and Resources and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £209,918 for the Authority (2016/17: £231,996 – note that this includes £22,078 for additional work needed in relation to the Best Value Inspection and associated risks, but does not include fees that will be needed to consider the objection received in relation to the Authority's PFI schemes which we accepted in December 2017). The planned audit fee for 2017/18 is £21,000 for the Pension Fund (2016/17: £21,000).

Grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements:

Housing benefits grant claim: This audit is planned for September. Our fee for this work is £20,327; and

Pooled housing capital receipts: This audit is planned for October. Our fee for this work is £3,250; and

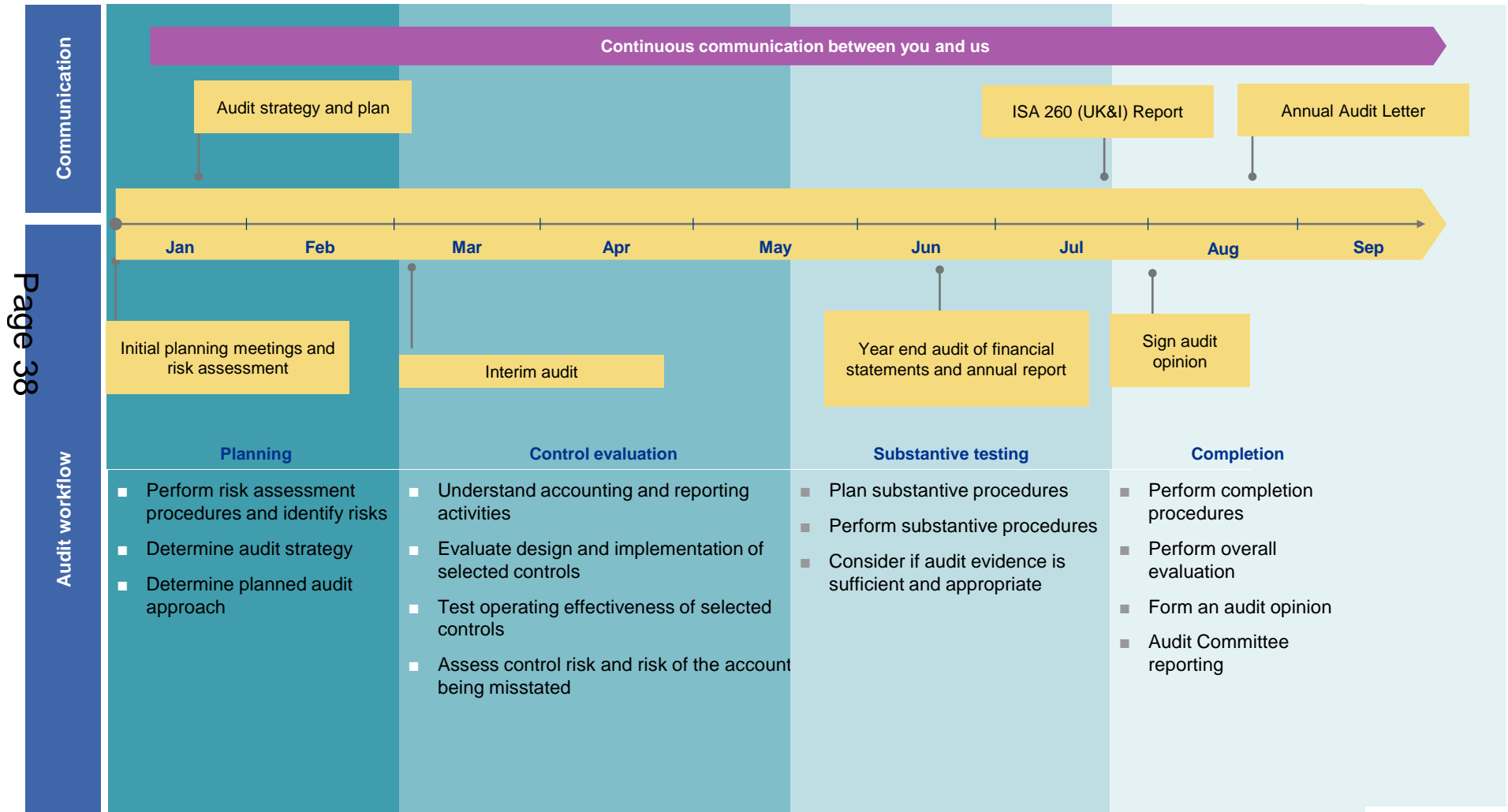
Teachers pension contribution return: This audit is planned for October. Our fee for this work is £3,750.

Public interest reporting

In auditing the accounts as your auditor we must consider whether, in the public interest, we should make a report on any matters coming to our notice in the course of our audit, in order for it to be considered by Members or brought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit.

At this stage there are no matters that we wish to report.

Appendix 1: Key elements of our financial statements audit approach



Appendix 2: Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF THE LONDON BOROUGH OF TOWER HAMLETS

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: General procedures to safeguard independence and objectivity; Breaches of applicable ethical standards; Independence and objectivity considerations relating to the provision of non-audit services; and Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values; Communications; Internal accountability; Risk management; and Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement [and that the safeguards we have applied are appropriate and adequate] is subject to review by an engagement quality control reviewer, who is a Partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

We confirm that we have not undertaken any non-audit services during 2017/18.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Appendix 2: Independence and objectivity requirements

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Appendix 3: Quality framework

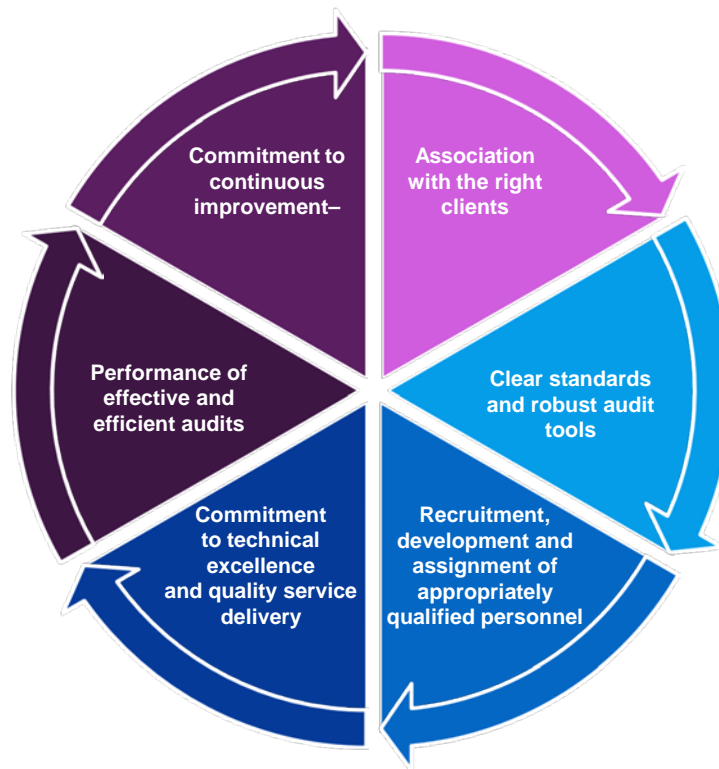
Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

Page 41

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists



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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psaa.co.uk).

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

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

<p>Non-Executive Report of the: Audit Committee 29th March 2018</p>	 <p>TOWER HAMLETS Classification: Unrestricted</p>
Report of: Zena Cooke - Corporate Director - Resources	
Quarterly Assurance Report	

Originating Officer(s)	Minesh Jani
Wards affected	All wards

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period covering January 2018 to February 2018.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

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

3. Background

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

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 financial year to date, I am able to give a substantial level of assurance over the systems and controls in place over the areas reviewed.

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 on 23rd January 2018, five more final reports have been issued in the intervening period up to February 2018. 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	Nil	Total
Significance	Extensive	-	1	-	1	2
	Moderate	-	-	3	-	3
	Low	-	-	-	-	-
Total Numbers		-	1	3	1	5
Total %		-	20%	60%	20%	100%

- 5.4. From the table above it can be seen that of the two finalised audits which focused on high risk or high value areas, one was assigned Substantial Assurance and one was assigned Nil assurance. A further three audits were of moderate significance and were assigned Limited Assurance.
- 5.5. Overall, for the period January to February 2018, 20% of audits resulted in an adequate assurance (substantial or full). The remaining 80% of audits have an inadequate assurance rating (limited or nil), all of moderate significance.

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 February 2018	80%	77%
Percentage of Priority 1 Audit Recommendations implemented up to November 2017 by Auditees at six monthly follow up audit stage	100%	N/A
Percentage of Priority 2 Audit Recommendations implemented up to November 2017 by Auditees at six monthly follow up audit stage	95%	N/A

- 6.2. Percentage of audit plan completed up to February 2018 was 77% against a target of 80%. This was due to some delay experienced by our external partner BDO LLP in commencing schools and ICT audits. Two follow up audits have been completed since January 2018 and draft reports have been issued. Currently management responses are awaited and hence the performance indicator for follow up audits has been shown as N/A. The appropriate PI will be reported upon issue of the final reports for both audits in the next quarterly assurance report.

7. Comments of the Chief Finance Officer

- 7.1. This is a noting report highlighting findings arising from the work of the internal audit service during the period from January 2018 to February 2018. 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.

9. One Tower Hamlets

9.1. There are no specific one Tower Hamlets considerations.

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

10. Best Value Implications

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

11. Risk Management Implications

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

12. Sustainable Action for a Greener Environment (SAGE)

12.1. There are no specific SAGE implications.

13. Crime and Disorder Reduction Implications


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

Assurance ratings – Table of Audits and level of Assurance

Assurance level	Significance	Directorate	Audit title
Nil	Extensive	Children's Services	Leaving Care Service
Limited	Moderate	Children's Services	School Governance and Clerking Service
	Moderate	Tower Hamlets Homes	New Starters and Leavers
	Moderate	Tower Hamlets Homes	Officers' Expense Claims Including Purchase Cards
Substantial	Extensive	Resources	ITIL Change & Problem Management

**Summary of Audits Undertaken
Nil Assurance**

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Leaving Care Service	Jan. 2018	<p>The objective of this audit was to provide assurance that systems for governing and managing various functions of the service were sound and secure. The Service is based at Kitcat Terrace in Bow, and the main aim is to enable looked after children, having reached appropriate age and status, to make a smooth transition into independent living that will normally lead to a permanent home and employment. Key processes in LCS include assessing care leavers needs, providing personal support, Pathway planning, financial support and providing intermediate housing. The budget for 2017/18 is</p> <p>The key control issues identified and agreed with Management were as follows:-</p> <ul style="list-style-type: none"> • There was a lack of sound governance and operational framework with outdated policy and procedures which may not be legally compliant and sufficiently robust to manage safeguarding risks to young people. • There was a lack of sound processes and procedures around supported accommodation in terms of commissioning and monitoring to ensure the safety of the client is maintained whilst achieving best value. • There was insufficient guidance and lack of standards for recording service users' needs assessment, management and monitoring of their pathway plans and reviews of these plans to ensure that needs were met. • There was no clear strategy and underpinning guidance to ensure smooth transition of young people from childhood to adulthood. • There were no key performance indicators and targets to measure and monitor the performance of the service and the team. 	Extensive	<p>Nil</p> 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Leaving Care Service		All findings and recommendations were discussed and agreed with the Interim Divisional Director of Children's Social Care and final report was issued to the Corporate Director of Children's Services.		


Management Comments

In response to the findings, a formal review of the leaving care service was commissioned and is underway with a completion date of Mid-April 2018. This review will address all of the audit recommendations and is drawing upon research, the experiences of authorities that have achieved good or better standards and the best internal practices to inform its conclusions.

The review has involved colleagues with the appropriate skills from across the council and as a result, financial systems and controls (including payment policies and procedures), and procurement processes are being reviewed and updated. Young people who use or, who have used the services of the LCS have been directly involved in this review and their thoughts about the KitKat terrace facility and how it can be used to maximum effect are informing the review. Importantly their experiences of using the service are influencing the review team's thinking and are being incorporated.

In the knowledge that this review of service is going to make some radical recommendations for change (for example the age at which transition begins and the future role of the virtual school), the performance monitoring framework for the service has been strengthened. Performance is formally measured on an ongoing basis and scrutinised and reported upon at 3 weekly meetings as well as in the monthly performance report. This ensures that managers are constantly aware of and are held to account for their teams' performance and compliance with statute, guidance and internal requirements.

Limited Assurance


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
School Governor and Clerking Service	Jan. 2018	<p>This audit examined the systems around the governor and clerking services offered to schools. The Governor Services team within the Education and Partnership service provide the service via service level agreements (SLAs) with the schools. Schools can choose to buy various levels of services for which charges apply. There are SLAs with 64 schools; 650 full governor/committee meetings are serviced, raising some £390,000 of income. Our testing showed that the Head of Service plans and reviews delivery of clerking services. The quality of the service was being monitored and corrective action taken. The Financial budget was actively monitored. However, the following issues were raised:-</p> <ul style="list-style-type: none"> • The provision of clerking service, which is non-statutory, relies on contribution from the General Fund. For 2016/17, the accounts showed gross expenditure of £653,109 and income of £382,459 with net contribution from General Fund of £270,650. • There was no time recording system to ensure that data on time spent on clerking individual schools was being collected for costing purposes. There was no pricing strategy in place. Performance monitoring was undertaken, however analysis of the key performance indicator (draft minutes sent out within 10 days of the meeting) was not being done formally. A marketing strategy was planned. • In 2016/17, three schools received more services than they paid for. In addition, some invoices raised in the previous year were still outstanding. <p>All findings and recommendations were agreed with the Divisional Director Education and Partnerships and final report was issued to the Corporate Director of Children’s Services.</p>	Moderate	Limited 

Management Comments

The recommendations were noted and actions have started. The Head of Service has met with Finance Officers to review the budgets and look at setting up a trading account so that there is clear accounting of the statutory and non-statutory services. The following actions have been agreed:

- Creation of a trading cost centre within G20 (Governor Services). This will be active from Q1 2018/19 financial year.
- Head of Service will undertake a service review of this area.

In relation to the recommendations, ongoing performance monitoring is taking place and payments are monitored and chased appropriately.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Starters and Leavers – Tower Hamlets Homes	Jan. 2018	<p>The objective of this audit was to provide assurance around the systems for controlling new starters joining the company and for administering the leavers. Our review showed that overall new starters and leavers were processed adequately. However, we reported the following control weaknesses:-</p> <ul style="list-style-type: none"> • There was no clear policy on Disclosure and Barring Service (DBS) checks. Checks requested were at the highest level. Hence THH were not complying with its legal responsibility to ensure that the roles for which the checks were applied for were eligible. There are no roles within Tower Hamlets Homes which would be eligible for high level checks as they do not involve what is defined as “regulated activity”. This issue has been raised with THH by LBTH HR and it would appear that LBTH HR have yet to receive a response. This situation is replicated with regard to DBS checks on agency workers. • There were no leavers procedures to guide managers. We found that requests for the deletion of IT access had not been submitted for 5 out of 10 leavers tested. Similarly, for agency staff, requests to delete IT access had not been submitted in respect of 2 in a sample of 5. • Notification of leavers to the Buildings Management team was patchy, which meant that leavers access to Administrative buildings was not ceased. • Payments for untaken leave were made to 5 leavers in our sample of 10, totaling £2400. It would therefore, appear that paying of untaken annual leave has become a standard practice even in cases where there is sufficient time to take annual leave and there are no exceptional circumstances. <p>All findings and recommendations were agreed with the Director of Business Transformation and final report was issued to the THH Chief Executive.</p>	Moderate	Limited 

Management Comments

The following progress has been made in implementing the audit recommendations:-

1. An update of role specific DBS checks has been carried out on all roles. The list of roles have been identified and agreed by HR - EMT Approval is required. A DBS policy is currently being drafted – EMT approval is required. (Completion date:31st March 2018)
2. New guidance notes on leavers and a form has been drafted. This has also been sent to the Head of People Services for comments / Feedback. The guidance will be instructing managers to complete the 'notification of leavers' process through the IT self-service portal. These guidance notes will also be instructing managers to send an email notification to Facilities management (Completion date: 31st March 2018)
3. The new guidance has stipulated that 'any outstanding leave must be taken prior to leaving'. So, managers will be aware that staff must take all their annual leave before THH services.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Officers' Expense Claims Including Purchase Cards</p> <p>Tower Hamlets Homes</p>	Feb. 2018	<p>This audit examined the systems in place for the control and monitoring of purchases paid through Tower Hamlets Homes' purchase card facility or reimbursed to staff via its expense management system, Concur.</p> <p>THH uses the NatWest one card purchase card facility. Purchase card transactions can be reviewed, allocated and approved on NatWest SDOL (Smart Data Online). The THH NatWest One Card Procedures prohibit the purchase cards being used by officers for Personal Purchases. Receipts are required to be attached to each transaction electronically. Card holders are expected to log in to SDOL regularly to ensure that transactions are reviewed, receipted and approved by the 8th of each month when the card statement is received. Monthly direct debit payments are made to the card provider for all transactions listed in the card statement on the 22nd of every month. The Finance Team prepare a journal of all allocated transactions so that it can be posted to Agresso by month end.</p> <p>The audit highlighted the following issues:-</p> <ol style="list-style-type: none"> 1. Our testing showed that there was significant non-compliance by both card holders and approvers with purchase card requirements, i.e. timely review, allocation and receipting of each transaction as well as timely approval of transactions. In our test sample of 25 transactions, taken from a transaction report for the period 1 April 2016 to 31 July 2017, 72 per cent of transactions had not been approved. This meant that the majority of purchase card transactions in the sample had not been subjected to any kind of scrutiny as to whether the expenditure was valid and necessary. 2. We noted that some of the purchase card expenditure was expense claims that staff had made using this facility. We also noted that in some cases, although the purchase card procedures prohibit using the card for personal purchases, the controls are so poor that there is significant risk that personal purchases may have been made using the card. We have referred these cases and examples to the Interim Director of Finance for further investigation and action. 	Moderate	<p>Limited</p> <p style="text-align: center;">↕</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Officers' Expense Claims Including Purchase Cards</p> <p>Tower Hamlets Homes</p>	Feb. 2018	<p>3. Our testing also showed that three out of five card holders tested did not maintain a transaction log. As purchase card expenditure is approved and allocated to a suitable expenditure code in retrospect, it is good practice to keep a transaction log that is updated each time a purchase is made. Such a transaction log provides a full audit trail and enables the organisation to fully account for each purchase card transaction. The transaction log should record the date, merchant, amount and purpose of the purchase</p> <p>4. In the sample of 25 purchase card transactions, only 12 had a receipt attached. Of these 12 receipts, five were inadequate (i.e. they were handwritten, credit card sales voucher or similar). This further weakens the audit trail and Tower Hamlets Homes, therefore, is not able to fully account for the majority of its purchase card transactions. Accounting for VAT on the expenditure claimed by staff was not as sound as it should be.</p> <p>5. A significant number of purchases were from restaurants (around 10 per cent). As there was no supporting documentation, the business purpose of such transactions is questionable.</p> <p>All findings and recommendations were discussed with the Interim Director of Finance and final report was issued to the THH Chief Executive.</p>		

Management Comments

The expense and purchase card audit was included in the audit programme as there was a degree of management concern about the robustness of these systems.


The interim Director of Finance reviewed the information outlined in 2 above and reported back to internal audit in October 2017; adequate explanations and or supporting evidence was received to justify the expenditure such that no formal action was required.


We are on track to achieve the agreed management actions arising from the audit.

We have already:

- Revised our procedures and distributed them to all cardholders
- Updated our cardholder agreement and cardholders are signing and returning that agreement
- Prepared a transaction log based on the one recommended by audit and distributed that to all card holders.
- Updated the application documentation as recommended by audit so that the line manager of the card holder is also clear about their obligations.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
ITIL Change & Problem Management	Dec. 2017	<p>The Audit review was carried out to assess the IT services management framework by evaluating existing management and contractual arrangements with Agilisys against the best practice ITIL framework for Change and Problem Management. The Information Technology Infrastructure Library (ITIL v3) best practice approach to IT Service Management is a widely accepted framework to help organisations assess, improve and develop IT Service Management. An ITIL self-assessment questionnaire was used with the aim to give Tower Hamlets an idea how well it is performing compared to ITIL best practice.</p> <p>Sample testing of response to the ITIL self-assessment questionnaire revealed that there are generally good processes in place covering change and problem management.</p> <p>For Change Management the evaluation was that arrangements in this area currently meet eight out of nine ITIL evaluation areas with a recommendation being raised to ensure the Customer Interface procedure is fully implemented. This procedure should include customer satisfaction surveys and checks that the activities and support provided by the contractor meets business needs and priorities of LBTH customers. The customer Interface area is mandatory ITIL requirement with a failure to having an effective customer interface resulting in the business/users not receiving expected services.</p> <p>For Problem Management the evaluation was that service level management arrangements meet or exceed ITIL evaluation criteria and the public sector average in all nine areas.</p> <p>All findings and recommendations were agreed with the Divisional Director, ICT Service and final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial 

Non-Executive Report of the: Audit Committee 29 th March 2018	 TOWER HAMLETS
Report of: Asmat Hussain, Corporate Director, Governance and Monitoring Officer	Classification: Unrestricted
Whistleblowing Update	

Originating Officer(s)	Paul Greeno, Senior Corporate and Governance Lawyer
Wards affected	All

Summary

This is a periodic report updating on the Council’s whistleblowing and investigation monitoring information.

Recommendations:

The Audit Committee is recommended to:

1. Note the whistleblowing and investigation monitoring information contained in this Report as well as Appendix 1.

1. REASONS FOR THE DECISIONS

1.1 This is a noting report.

2. ALTERNATIVE OPTIONS

2.1 This is a noting report.

3. DETAILS OF REPORT

3.1 11 concerns were still outstanding since the last Committee Report. 5 of those concerns have now been concluded and the cases closed. Of those 5:

- 2 were upheld (1 Partial)
- 3 were not upheld

3.2 Out of the 3 not upheld, there were lessons to be learnt in 1 case as follows:

- An alleged criminal act by an employee in the course of their duties amounting to unauthorised use or misuse of public funds and abuse of position for financial gain. There was no evidence of any fraud but there had been negligence and a series of control and process failures. Recommendations to address such failings were sent to the appropriate Corporate Directors and these recommendations will be followed up to ensure that they are actioned by the Monitoring Officer.

3.3 Appendix 1 sets out anonymised details of those Whistleblowing matters that were upheld.

3.4 Since the last report, there has also been a further whistleblower concern raised and there are therefore 7 matters still ongoing. These are all at various stages and an update in relation to those matters will be provided at the next meeting of the Audit Committee.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 There are no direct financial implications arising from the recommendations within this report.

5. LEGAL COMMENTS

5.1 Whistleblowing law is located in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). It provides the right for a worker to take a case to an employment tribunal if they have been victimised at work or they have lost their job because they have 'blown the whistle'. The law does not however require employers to have a whistleblowing policy in place but it is accepted good practice. The existence

of a whistleblowing policy shows an employer's commitment to listen to the concerns of workers. Further the Department for Business Innovation and Skills ('BIS') Guidance and Code of Practice provides that it is good practice for employers to have a whistleblowing policy or appropriate written procedures in place.

- 5.2 As an employer, the Council wishes to create an open, transparent and safe working environment where workers feel able to speak up and it has a whistleblowing policy. This policy was last revised in November 2017.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 Monitoring of whistleblowing is a continuation of the Council's improvement to its organisational culture. It demonstrates a commitment to put the concerns of employees and local people first and for fair and transparent decision making and which contributes to the delivery of One Tower Hamlets priorities and objectives.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 Whilst the report does not propose any direct expenditure, it is looking to put in place arrangements in the exercise of its functions having regard to efficiency and thereby also economy and effectiveness.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 None.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Ensuring a culture whereby persons feel empowered to raise concerns when there is a reasonable belief (and it is in the public interest) that one or more of a criminal offence, a breach of legal obligation, a miscarriage of justice, a danger to the health and safety of an individual, damage to the environment, and/ or a deliberate attempt to conceal one of these, has occurred or is likely to occur is an important part of risk management and should reduce risks.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 Ensuring a culture whereby persons feel empowered to raise concerns when there is a reasonable belief (and it is in the public interest) that a criminal offence, a miscarriage of justice is likely to occur should assist in reducing crime.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- 1 – Table of completed investigations where allegation upheld

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

APPENDIX 1

URN	Details of Concern	Outcome
003/WB/2016	<p>The initial allegation was prior to the Whistleblowing process being overseen by the MO: this came in in April 2016. The complaint was therefore raised directly with the Corporate Anti-Fraud Team and the investigation process was managed by them. Further linked concerns came through and which were sent to the MO. In total, there were 18 allegations received from the person raising the concern but 8 of these were grouped. The allegations were all against named individuals and therefore details cannot be given. 11 of the 18 allegations were upheld (including the 8 grouped)</p>	<p>5 recommendations were made as follows:</p> <ol style="list-style-type: none"> (1) To avoid unnecessary misunderstandings Parking Services management should consider better communications with staff around management roles and responsibilities (2) Recruitment Standard and Guidance should be amended to require recruiting managers to declare if any of the candidates are known to them in any context, including from previous roles (3) Divisional Director Public Realm to conduct a full review of all currently held parking permits within Parking Services to ensure that: <ol style="list-style-type: none"> (a) the permits have been issued in the correct manner with the correct authorisation; (b) the holders comply with current eligibility requirements i.e. need a car to carry out their duties; (c) where permits are held by individuals that they have a 'registration specific' permit not a MVP; and (d) where MVP pool permits legitimately required they are adequately controlled and monitored. (4) CLT agree the recommendations made in the report on improvements to management of agency staff and consultants namely <ol style="list-style-type: none"> (a) Evidence must be recorded in C.net that a competitive process has been completed to source consultants; and (b) The lead manager and other members of panels be required to declare any interest in respect of applicants or bids to carry out work (5) Mandatory investigation training should be introduced for managers prior to them undertaking any investigations.

037/WB/2017	<p>Allegation that an officer was claiming sick pay whilst fit for work and was going abroad on holiday. Also that the officer was in charge of a company that was undertaking fraudulent practices</p>	<p>It was established that times off sick matched times on holiday and the matter is now subject to a disciplinary investigation. The business the subject of the alleged fraudulent practices is under investigation by the Police and therefore inappropriate for the Council to also investigate.</p>
040/WB/2017	<p>Allegation for the same officer as above but different holiday dates. Also that the officer was in charge of a different company that undertaking fraudulent practices</p>	<p>It was established that times off sick matched times on holiday and the matter is now subject to a disciplinary investigation. The business the subject of the alleged fraudulent practices is under investigation by the Police and therefore inappropriate for the Council to also investigate.</p>
046/WB/2017	<p>This allegation overlapped with a matter carried forward from the Clear-Up Team (Case Ref. No. CU 023)</p>	<p>A total of 11 recommendations were made and which have been separately published. To date, 10 of those recommendations have been completed and the final recommendation relates to communication processes between Services and an Audit Report has made recommendations which are being put in place with completion scheduled by the end of March.</p>

049/WB/2017	<p>Allegation that particular staff are coming in late and leaving early. That staff are smoking in work vehicles. A member of staff is leaving early to go and do private work. An officer has gone off sick because that officer said that they had not been off sick for a while and wants to try to get ill health retirement.</p>	<p>There was evidence to show that on one day an officer had come in late whereas their timesheet indicated they had arrived 40 minutes early. However on other days came that officer came in approximately 30 before the time stated on their timesheet.</p> <p>There was evidence of smoking in work vehicles but not who was smoking. There was no evidence regarding the allegations.</p> <p>The Manager raised issues of timekeeping and that timesheets should be honest and accurate at a Team Meeting on 27/04/2017. That was sufficient and no further action required.</p> <p>As to smoking in vehicles, whilst there is evidence of smoking, it could not be established who had been smoking. Again, the Manager raised the issue of smoking in work vehicles at Team Meeting on 27/04/2017 and that it was a criminal offence. Again, that was sufficient and no further action required.</p>
122/WB/2017	<p>Employee convicted of an offence of assault and also on Police bail in respect of another matter but failed to advise the Council, as employer.</p> <p>Employee resigned when it was raised with them. Disciplinary investigation still undertaken due to sensitive nature of post and to ensure completeness of records and in case any future legal challenge to outcome.</p>	<p>2 accounts of gross misconduct were considered formally at a disciplinary hearing and employee invited to attend. Panel</p> <p>The agreed to:</p> <ul style="list-style-type: none"> - uphold recommendation for summary dismissal (had person remained an employee) and for the conclusion to be made known to the employees professional body - Recommend a strategy meeting with the Adults Safeguarding Officer, and to report the matter to the Council's safeguarding Board

<p><i>Non-Executive Report of the:</i> Audit Committee</p> <p>29TH March 2018</p>	
<p>Report of: <i>Zena Cooke - Corporate Director - Resources</i></p>	<p>Classification: <i>Unrestricted</i></p>
<p>Anti-Fraud and Corruption Strategy 2018-19</p>	

Originating Officer(s)	<i>Tony Qayum</i>
Wards affected	<i>All wards</i>

1. INTRODUCTION

- 1.1 This report provides the Audit Committee with an updated Anti-Fraud and Corruption Strategy for 2018-19.
- 1.2 Local Authorities in the United Kingdom are required to maintain high standards of probity and have sound arrangements for protecting the public purse. Sound systems of public accountability are also vital for effective management and in maintaining public confidence. Thus minimisation of losses from fraud and corruption is essential for ensuring that resources are used for their intended purpose.
- 1.3 The need for effective anti fraud work within local authorities has been reflected consistently over many years by regulatory bodies including the former Audit Commission, by CIPFA and by the National Fraud Authority in their 'Fighting Fraud Locally' publications. We have a dedicated Corporate Anti-Fraud Team that seeks to reduce the risk of Fraud and Corruption to the Council by undertaking pro -active and re-active work across all areas of the Councils activities.
- 1.4 Central to our approach is the themes of:
 - **Acknowledge**
 - **Prevent**
 - **Pursue**
- 1.5 These themes exist within the overall context of an Anti-Fraud Culture and support the roles of The Mayor, Statutory Officers, Elected Members and the public by ensuring where abuse is found it is tackled and resolved with improvements to processes made to minimise future

exposure and wherever possible recovery of assets and funds are made.

- 1.6 To achieve this it is imperative that the Councils Fraud investigation function has adequate processes, skills and resources to support anti fraud and corruption activities.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the contents of the report.

3. ANTI FRAUD AND CORRUPTION STRATEGY OBJECTIVES

- 3.1 As part of our ongoing efforts to ensure the strategy and systems in place within the Council remain relevant and meet best practice the Anti Fraud and Corruption Strategy has been reviewed and attached at Appendix 1 is the updated strategy. The Council's Monitoring Officer has reviewed the Council's arrangements for raising concerns via the Whistleblowing Policy and the revisions are encompassed in the 'Speak Up' mechanism for all types of concerns whether they be around Fraud or other matters for which the council has a duty to respond.
- 3.2 Contained within Appendix 1 is the revised Anti-Fraud and Corruption Strategy with the appropriate assurances on how we will deal with allegations of fraud and corruption.
- 3.3 Attached at Appendix 2 is the Council's Whistleblowing Procedure.
- 3.4 The Anti-Fraud strategy is based upon the following key areas of coverage as outlined by the following key tests that were set by the CIPFA guidance and recent legislation including the Prevention of Social Housing Fraud Act 2013 designed to criminalise the Subletting of Social Housing property.
- 3.5 The publication Fighting Fraud and Corruption Locally (produced in March 2016) sets out a 3 year strategy (2016-19) to assist council leaders, chief executives, finance directors and all those with governance responsibilities in undertaking their responsibilities.
- 3.6 The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape.
- 3.8 There will be an Independent Board working with Local Authorities and the CIPFA Counter Fraud Centre to review progress against these new standards.

3.9 The vision of the strategy is that by 2019:

- There is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them
- By better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services
- Local Authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery
- Local Authorities will be sharing information more effectively and by using advances data technology will prevent and detect losses
- Fraudsters will be brought to account quickly and efficiently and losses will be recovered.

3.10 It is intended to develop the Anti-Fraud and Corruption Strategy and pro-active plan in conjunction with these principles. The key tests that we have applied in our Anti-Fraud and Corruption Strategy are:-

Adopting the right strategy

Does the organisation have a counter fraud and corruption strategy that can be clearly linked to effective policies and procedures in relation to identifying, reporting and investigating suspected fraudulent/corrupt activity are in place?

Measuring fraud and corruption Losses

Are fraud and corruption risks considered as part of the organisation's strategic risk management arrangements?

Creating and maintaining a strong structure

Do those tasked with countering fraud and corruption have the appropriate authority needed to pursue their remit effectively, linked to the organisation's counter fraud and corruption strategy?

Taking action to tackle the problem

Is the organisation undertaking the full range of necessary action?

Defining Success

Relevant officers and Committees are made aware of investigations which may affect their Services?

3.12 Further the National Fraud Authority has suggested that the cornerstone of good practice should embrace three themes on which each local authority should reflect. These are:

Acknowledge – Acknowledging and understanding the fraud risks

Prevent- Preventing and detecting more fraud

Pursue- Being stronger in punishing fraud and recovering losses

3.13 The Anti-Fraud and Corruption Strategy summarises the Councils position, building on the content of a number of corporate policy statements, including;

- The Councils Constitution
- Officer and Member Codes of Conduct/ Protocols
- Whistle-blowing Policy
- Anti-Money Laundering Policy
- Anti-Bribery Policy
- Financial Regulations
- Procurement procedures and competition regulations

3.14 It is considered that by updating the Anti-Fraud and Corruption Strategy in this way it will remain in compliance with best practice.

3.15 It should therefore be noted that the Corporate Anti-Fraud Team will have an ongoing duty to review and report upon the following areas of the Council's activities. These are the investigation of Social Housing Sub Lettings and property abandonment, Blue Badge and Parking Fraud and Corporate Investigations that will examine Council systems and procedures where allegations of fraud or corruption are made, or where Pro-active enquiries are undertaken across the breath of the Councils functions.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 There are no direct financial implications arising from this report. The anti-fraud and corruption strategy will be delivered through existing budgets, notably the risk management and audit service budgets

5. LEGAL COMMENTS

5.1 The legislative framework in respect of the Council's anti-fraud policy is detailed in the body of the Reviewed Anti-Fraud and Corruption Strategy as set out in Appendix 1.

5.2 Under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Council's systems of internal control, practices and systems. This requirement is further reinforced by

the Local Audit and Accountability Act 2014 which established new arrangements for the auditing of local public bodies. The Anti-Fraud and Corruption Strategy is one of those processes.

- 5.3 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.
- 5.4 The Whistleblowing Procedure at Appendix 3 is part of a suite of documents relating to Whistleblowing and are kept under review by the Monitoring Officer. Whistleblowing is also the subject of separate reports to the Committee.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 This report highlights risks arising from instances of Fraud and Corruption and the arrangements for minimising the impact on service delivery and council objectives. The ongoing management of these risks through enhanced governance will assist so that effective management can be put in place to robustly respond to breaches and enforce positively to reduce the authority's exposure to risk.

7. ANTI-POVERTY CONSIDERATIONS

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

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 This report highlights arrangements for the management of instances of Fraud and or Corruption and it demonstrates how the Council is responding to potential risks to the control framework that may be exploited by fraudsters.

9. SAGE

- 9.1 There are no specific SAGE implications.

10. CRIME AND DISORDER IMPLICATIONS

- 10.1 By having sound systems of control, the Council can safeguard against fraud and abuse of financial resources and assets.
-

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- NONE

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- 1 – Reviewed Anti Fraud and Corruption Strategy
- 2 – Whistleblowing Procedure

Officer contact details for documents:

N/A

London Borough of Tower Hamlets
Corporate Anti-Fraud & Corruption Strategy

1.	Introduction	2
2.	Scope	2
3	Responsibilities	2
3.1	Conduct	2
3.2	Employee Responsibilities	3
3.3	Management Responsibilities	4
3.4	Audit Committee	4
4.	Regulations and Legislation	4
5.	Strategy	5
5.1	Deterrence	5
5.2	Prevention	5
5.3	Detection	6
5.4	Investigation	6
5.5	Liaison with Other Organisations	7
6	Post Investigation	7
6.1	Sanctions	7
6.2	Prosecution	8
6.3	Recovery of Losses	8
7	How to Report a Concern	8

1. Introduction

- 1.1. The Anti-Fraud and Corruption Strategy outlines the Council's intent to minimising the risk of loss to the organisation resulting from fraud and corruption originating both internally and externally.

2. Scope

3. The strategy is designed to:
 - Encourage prevention
 - Promote transparency
 - Ensure effective investigation where suspected fraud or corruption has occurred
 - Prosecute offenders, where appropriate
- 2.2. There is a reasonable expectation and requirement that all Members, employees at all levels, consultants, contractors, and service users be fair and honest in their dealings with the Council and will provide help, information and support to assist in the investigation of fraud and corruption.
- 3.1. This strategy outlines how the Corporate Anti-Fraud Team (CAFT) will deliver this commitment and provides advice on how individuals, including members of the public, may raise concerns relating to fraud and corruption.

4. Responsibilities

3.1 Conduct

The Council expects all individuals and organisations associated with it to be honest and fair in their dealings with the Council and its service users. Members and managers are expected to lead by example in this regard, observing the Principles of Standards in Public Life as laid down by the Nolan Committee. These are shown below:

Selflessness- Holders of public office take decisions in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family or their friends

Integrity- Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in their performance of their official duties

Objectivity- In carrying out public business, including making public appointments, awarding contracts or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability- Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness- Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty- Holders of public office have a duty to declare any private interests relating to their public duties to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership- Holders of public office should promote and support these principals by leadership and example.

3.2 Employee Responsibilities

Employees at all levels have a critical role to play in the prevention of fraud and corruption throughout their daily undertakings and in their general conduct. All individuals should be aware of and understand the Councils expectations as relevant to their role under the Code of Conduct and other regulations of the Council as outlined in section 4 below. Failure to adhere to these regulations may result in disciplinary action.

Employees who suspect a fraud or irregularity have a duty to report their concerns. Where such concerns exist, individuals are asked to make a note of all relevant details, such as what was said in phone or other conversations, when these conversations took place and the names of anyone involved. The matter should be reported immediately to either your:

- Line Manager
- Head of Service
- Divisional Director
- Corporate Director

Or independently to the Monitoring Officer in accordance with the Councils Whistleblowing Policy as detailed in section 7. How to Report a Concern.

Anyone wishing to report a concern should be aware that every effort will be made to preserve confidentiality, although in certain circumstances, such as those resulting in criminal proceedings, individuals may be called upon to provide a witness statement or attend court as a witness.

Employees must not do any of the following:

- Contact the suspected perpetrator in an effort to determine facts or demand restitution
- Discuss the case facts, suspicions or allegations with anyone outside the Council (including the Press)
- Discuss the case with anyone within the Council other than those listed above.

3.3 Management Responsibilities

Managers must ensure that an appropriate level of internal control exists to safeguard adequately against the risk of fraud and corruption. The Council's Internal Audit and Corporate Anti-Fraud teams will work with managers to improve the control environment and to provide advice and guidance about fraud prevention and detection.

Where managers have reason to suspect fraud or corruption in their work area or have received a concern from an employee or member of the public they should:

- Not attempt to undertake a formal investigation as this may damage any Internal Audit or criminal investigation.
- When receiving the concern, obtain as much information as possible from the member of staff or public, including any evidence that they may have.
- Report the matter **immediately** to the Head of Audit and Risk Management

3.4 Audit Committee

The Anti-Fraud and Corruption Strategy is approved by the Audit Committee. The Committee receives regular fraud update reports, regarding the investigation caseload and details of proactive anti-fraud activities planned and undertaken.

4. Regulations and Legislation

The Council has developed a series of regulatory documents and protocols which govern how we operate and take decisions and outline the procedures to follow to ensure that our actions are fair, efficient, transparent and accountable to our community. As well as governing operations, our regulations form a key component of the internal control environment, following and applying these creates a strong basis on which to reduce the risk of fraud and corruption. The following documents which are endorsed by the Council provide further information and guidance.

- Council Constitution
- Standing Orders
- Financial Regulations
- Employee Code of Conduct
- Code of Conduct for Members
- Member/Officer Relations' Protocol
- Money Laundering Policy

There is a range of relevant legislation that is also available. These include:

- Fraud Act 2006
- Theft Acts 1968 and 1978 as amended
- Prevention of Social Housing Fraud Act 2013
- Bribery Act 2010
- Employment Rights Act 1996

- Proceeds of Crime Act 2002
- Local Audit and Accountability Act 2014
- Regulation of Investigatory Powers Act 2000
- Money Laundering Regulations 2007
- Computer Misuse Act 1990

5. Strategy

5.1 Deterrence

The Council will seek actively to deter potential fraudsters from committing or attempting to commit fraudulent or corrupt acts. It will do so through:

- Publicising that the Council will not tolerate fraud and corruption, demonstrated by this anti-fraud & corruption strategy and the whistleblowing policy.
- Encouraging a strong anti-fraud culture amongst its employees and Members, and providing easy and effective means to report suspicions of fraud or corruption, e.g. the Report a Concern hotline 0800 528 0294 the dedicated email address anti-fraud@towerhamlets.gov.uk and on-line form for raising concerns.
- Taking robust action when fraud and/ or corruption are identified, in the form of conducting complete and thorough investigations, and taking decisive action if allegations are proven, such as prosecution, dismissal, and civil actions and financial recovery through the Proceeds of Crime Act, where appropriate.
- Engaging with the Council's Communications Service where appropriate, in order to maximise the publicity of successful outcomes in combating fraud and corruption.
- Deploying robust systems of internal control to mitigate the opportunity for fraud and corruption on an on-going basis.
- Developing and delivering general and tailored fraud awareness sessions to Council employees and its partner Tower Hamlets Homes.
- Maintaining fraud awareness presentations and e-learning for all officers.

5.2 Prevention

The Council employs a range of control mechanisms within its systems, policies and procedures in order to mitigate the risk of fraud and corruption. Chief Officers and Managers across the authority are the key management control and are responsible for assessing the risk of fraud and corruption in their operational area and, as such are responsible for implementing appropriate strategies in order to manage this risk.

The Head of Audit and Risk Management is responsible for both Risk Management & Counter-Fraud & Investigation; while these two operational functions are distinct from the main assurance role of Internal Audit, all three work together in order to promote and advise on key actions that can be taken to aid in the prevention of fraud and corruption against the Council.

5.3 Detection

The Council has a robust Whistleblowing Policy and procedure and our Financial Regulations require employees to report any suspected cases of fraud or corruption appropriately.

The Council participates in a range of data matching exercises to detect fraud including-

- The National Fraud Initiative currently managed by the Cabinet Office
- Undertaking internal data – matching exercises utilising data held by the Council.
- Working in partnership with local authorities, the National Anti-Fraud Network, government bodies and the commercial sector
- Sample transaction and control testing as part of Internal Audit reviews undertaken as part of the on-going Internal Audit Plan.

5.4 Investigation

The Corporate Anti-Fraud team is responsible for the investigation of allegations of fraud and corruption against the Council. Each allegation will be considered on its individual merits and a decision made on the most appropriate way to proceed with any investigation, this may include:

- Criminal or civil investigation by the Council's Corporate Anti-Fraud Team.
- Internal examination as part of an Internal Audit review.
- Dedicated internal fraud investigation.
- Management investigation overseen by the Corporate Anti-Fraud Team.

As part of any investigation, the Council will ensure that:

- Any allegation is dealt with promptly and confidentially.
- Human Resources and/or the Corporate Director, Governance are consulted where appropriate.
- All evidence that has been collected is stored securely and recorded appropriately.
- Any interviews undertaken are conducted fairly and in line with appropriate legislation such as the Police & Criminal Evidence Act 1984.
- Relevant Chief Officers and Managers are informed of the progress of the investigation as appropriate.

- All investigations are conducted in a timely manner, in-line with the Criminal Procedures and Investigations Act 1996, and the Human Rights Act 1998.

As part of the investigation the Council will consider whether:

- Disciplinary action should be taken against any employee involved
- Civil proceedings or criminal prosecution should be instigated
- The matter should be referred to the Police
- Changes are required to improve the systems and controls of the affected area to improve effective governance and reduce further risk to fraud or impropriety
- Any other action should be recommended

At the conclusion of an investigation, the investigating officer will report the findings to the relevant managers, Chief Officer and Human Resources. Any disciplinary action considered will be in compliance with human resources policy and procedures. Where necessary, the individual who is subject to investigation will be informed of the outcome in writing and will be advised of what action, if any is to be taken.

Where it is found that a fraud has been committed against the Council we will make recommendations to ensure that any control weaknesses which provided the opportunity for the fraud are addressed.

5.5 Liaison with Other Organisations

The Council will actively engage with other organisations, and develop and maintain strong links in its efforts to pursue and strengthen its anti-fraud and corruption strategy at both a local and national level. The Corporate Anti-Fraud Team works with the Police, Local Authorities, the CIPFA Counter Fraud Centre, the DWP Home Office Immigration teams and central Government departments.

The Council is an active user of the National Anti-Fraud Network (NAFN) services and will utilise the full range of intelligence and evidence gathering avenues to support its counter-fraud and investigation activity.

The Council is a member of the London Borough Fraud Investigators Group (LBFIG), with the Corporate Anti-Fraud Manager being part of the LBFIG Executive Committee.

6. Post Investigations

6.1 Sanctions

Where financial impropriety has been discovered, whether perpetrated by Officers, Members or third parties (e.g. suppliers, contractors, service providers), the Head of Audit & Risk Management will consult with the Corporate Director, Resources and Corporate Director, Governance as appropriate, to form a view on whether the matter should be reported to the Police. In cases where matters are referred to the Police, the Crown

Prosecution Service will determine whether or not a prosecution will be pursued.

Should matters be dealt with internally, a decision will be made in conjunction with Senior Management and Corporate HR on the most suitable course of action, in accordance with the Council's Enforcement Policy, Code of Conduct for Members, Employee Code of Conduct and the Councils disciplinary procedure.

Suspected financial impropriety by any third party that the Council has dealings with will be the subject of investigation. If proven, this may result in the termination of individual contracts and may result in prosecution or civil action.

6.2 Prosecution

Any matters considered for prosecution will be subject to the 2 stage Full Code Test in the Code for Crown Prosecutors: the Evidential stage and the Public Interest stage. While each case is considered on its own merits, a consistent set of principles will be applied in forming the decision whether or not to prosecute.

In cases where fraud and/or corruption is proven, the Council in-line with its Enforcement Policy, consider instigating prosecution proceedings in conjunction with the Corporate Director, Governance.

Should matters that are referred to the Police be considered for prosecution, action will be instigated through the Crown Prosecution service.

6.3 Recovery of Losses

In proven cases of financial loss, the Council will seek to recover all such losses through whatever means it considers appropriate. If the fraud was committed by an employee, the loss may be recovered from any monies due to the individual on termination of employment.

Where the opportunity exists and evidence is strong enough to utilise the services of the Councils Financial Investigator this will be done to exercise recovery through the application of Proceeds of Crime action.

7. How to Report a Concern

- 7.1. There are a number of ways that individuals may raise a concern or report a suspected fraud or irregularity; any reports received will be treated confidentially in accordance with the Council's Whistleblowing Policy. Employees are urged to consider the nature of the concern, whether it involves immediate management, and the seriousness and sensitivity of the issues involved.
- 7.2. As soon as an employee becomes reasonably concerned about a matter, they are encouraged to raise this in the first instance with their line manager. All managers have a responsibility to act on concerns raised. The line manager should report the concern to the Councils Monitoring Officer who

will consider referral to the Head of Audit & Risk Management or the Corporate Anti-Fraud Manager as soon as practicably possible.

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Appendix 2

LONDON BOROUGH OF TOWER HAMLETS

WHISTLEBLOWING PROCEDURE

SPEAK UP
Let's work together against what's wrong.



1. INTRODUCTION

- 1.1 Whistleblowing is when an employee reports suspected past, present or imminent wrongdoing, or an attempt to conceal wrongdoing. Officially this is called 'making a disclosure in the public interest'. Whistleblowing is important to safeguard the effective delivery of public services, and to ensure value for money. It serves to protect and reassure the workforce, increasing public confidence and to maintain a healthy working culture and an efficient organisation.
- 1.2 This Procedure applies to all employees of London Borough of Tower Hamlets including permanent and temporary employees. It also covers agency workers and employees seconded to the Council.
- 1.3 Contractors working for the Council may also use this Procedure in order to make us aware of any concerns that they, their employees or sub-contractors may have with regard to any contractual or other arrangement with the Council. Any concerns relating to non-Council business, however, should be raised with the relevant contractor's organisation, regulator or other suitable agency.
- 1.4 This procedure outlines the process that you should follow when reporting a perceived wrongdoing within the Council.
- 1.5 It is important that this procedure is followed when raising any concerns, to ensure that the matter is dealt with correctly. Where a concern is raised using the correct procedure, the individual will be protected from any unfair or negative treatment. As set out in this procedure, you can raise concerns through a number of internal routes.

2. ROLES AND RESPONSIBILITIES

- 2.1 The roles and responsibilities which apply in relation to the Whistleblowing Policy include, but are not limited to:

The Monitoring Officer

- Has overall responsibility for the maintenance and operation of the Whistleblowing Policy.
- To whom whistleblower concerns are raised.
- Considering whether the concern is covered by the Whistleblowing Policy.
- Ensuring matters raised are handled properly.
- Monitoring whistleblowing cases and to report on the use of this Procedure and the outcome of investigations, including disclosures where no further action is taken.

Corporate and Divisional Directors

- Promoting and providing a safe culture and environment where employees and other workers are confident that they can speak up about concerns without fear of reproach or recrimination.
- Ensuring that mechanisms are in place within Directorates to inform the Monitoring Officer of any matters of concern which are raised

Line Managers

- Providing a safe environment where Tower Hamlets employees and other workers are comfortable speaking up about matters of concern.
- Ensuring that any matters raised are treated seriously and dealt with promptly in accordance with this policy and procedure, including informing the Monitoring Officer of all concerns reported to them.
- Maintaining confidentiality, as appropriate, of the employee(s) involved in the concern.
- Not deterring, bullying, isolating or otherwise victimising anyone using these procedures or destroying information about malpractice, all of which may result in disciplinary action.

Councillors

- Can report and pursue concerns reasonably believed to be in the public interest.
- Supports standards of behaviour of openness, probity and accountability of all employees, Councillors and its contractors.
- Will receive reports giving them the opportunity to scrutinise the operation of the Whistleblowing Policy and Procedure and will lead on a shared learning culture.
- Will receive regular monitoring reports and yearly performance reports.

Employees and other workers

- Reporting and pursuing concerns reasonably believed to be in the public interest (affecting others and not just the individual; this procedure is not to be used for reporting personal grievances or complaints relating only to the complainant's treatment).
- Raising concerns to the appropriate person in the appropriate way in line with the Whistleblowing Policy and this Procedure.
- Not raising or pursuing any malicious or vexatious allegations relating to the department or colleagues

3. **WHAT IS A RELEVANT CONCERN**

3.1 Please see the Whistleblowing Policy (section 2).

4. **REPORTING A CONCERN**

4.1 If you experience something in the workplace which you consider to be a relevant concern then it is important that the concern is raised straight away. Whilst proof is not required, you must have a reasonable belief that disclosing the information is in the public interest before raising a concern using this Procedure. The following paragraphs outline the different ways in which you can raise a concern.

4.2 The concern should, in most instances, be raised firstly with your line manager though it is important that you do raise the concern with the person best placed to deal with the matter and with whom you feel most comfortable.

4.3 There may be certain rare occasions when it would be inappropriate to raise the concern with your line manager because, for example, the concern:

- may implicate the manager in some way,
- is about a senior manager within the line management chain or somewhere else in the department,
- is particularly serious and needs to be dealt with as a matter of urgency

4.4 Concerns can also be raised with a senior manager if it is not appropriate to raise the concern with the line manager or you feel more comfortable doing so.

4.5 If it is believed that the concern is extremely serious and urgent and it cannot be raised with the line manager, another line manager, a senior manager, then it can be raised directly with the Monitoring Officer. The concern should only be raised in this way if you have given serious consideration to all other internal options.

4.6 You can raise your concerns in confidence with the Monitoring Officer in the following ways:

- Complete the 'Blow the Whistle' report form and which is available on the Council's intranet and then email it to: monitoring.officer@towerhamlets.gov.uk
- By sending an email to the Monitoring Officer at the above email address;
- By letter addressed to the Monitoring Officer, 6th Floor, Mulberry Place, 5 Clove Crescent, London E14 2BG
- By telephoning the Monitoring Officer on 020 7364 4800
- By appointment to discuss with the Monitoring Officer or a person appointed by him/her for that purpose

- Through a friend, a trade union representative, or a professional association representative

4.7 If you are the subject of an ongoing investigation or procedure (e.g. disciplinary or redundancy) then raising a concern will not necessarily have the investigation or the procedure halted or suspended. The decision in relation to this will be made by the Divisional Director, HR & Transformation in consultation with Monitoring Officer.

5. INFORMATION NEEDED TO RAISE A CONCERN

5.1 When raising a concern under this procedure, you should provide the following information where possible:

- the nature of the concern and its key elements.
- when it happened.
- who was involved.

5.2 In addition to details of the concern, you should try to provide the following information

- the background and reason behind the concern.
- whether you have already raised a concern with anyone and the response.
- any other relevant dates.
- if applicable, any personal interests that you have must be declared from the outset.

5.3 It is important that matters are not investigated by you. Proof is not needed, just a reasonable, honest belief that wrongdoing has occurred or is likely to occur.

6. PROCEDURE FOR INVESTIGATING CONCERNS

6.1 All investigations will be conducted sensitively, as quickly as possible, and under this procedure. The investigation should be concluded within 3 months of the matter being raised, though some scenarios may result in a longer timeframe. While we cannot guarantee that the outcome will be as you may wish, the matter will be handled fairly and in accordance with the Whistleblowing Procedure.

6.2 Once you have raised a concern with your line manager, a meeting may be arranged with them to determine how the concern should be taken forward. This may involve the line manager seeing if the matter can be satisfactorily resolved at that time without the need to trigger the formal procedure. Otherwise, it may involve an internal inquiry or a formal investigation. It will be established at the meeting who

will be dealing with the matter, for example, the Health and Safety Team if the matter relates to Health and Safety.

- 6.3 If a meeting is arranged, you may be accompanied by a trade union representative or a colleague who is not involved directly with the concern if you so wish. If you prefer, the meeting can be conducted over the telephone rather than face to face.
- 6.4 Where the concern is passed to the Monitoring Officer or you raise it directly with the Monitoring Officer then provided that you are not anonymous we will within 5 working days commencing from the first working day following receipt of concern provide a written acknowledgement will be sent to you.
- 6.5 Then within 15 working days commencing from the first working day following receipt of the concern, you will be informed in writing of:
- how it is proposed to deal with the matter;
 - whether further investigations will take place, or if not deemed appropriate, why this decision has been made;
 - an estimate of how long it might take to provide a final response; and
 - what support can be offered to you.
- 6.6 A decision will also be made on whether the concern should be investigated internally under the Whistleblowing Policy or the Grievance, Disciplinary or another policy, as appropriate. It may also be decided that the matter should:
- be referred to the Police, and/or
 - be referred to the external auditor, and/or
 - be the subject of an independent inquiry; or
 - have no further action taken
- 6.7 Some concerns may be resolved by agreed action without the need for formal investigation. If urgent action is required, this may be taken before any investigation is conducted.
- 6.8 We may decide that no further action will be taken under this policy in the following (not exhaustive) set of circumstances:
- if, after investigation, there is no evidence that malpractice has occurred, is occurring or is likely to occur;
 - if the matter concerned is already the subject of legal proceedings, or has already been referred to the police or other public authority;
 - if the matter is already, has already been, or should be, the subject of proceedings under one of the Council procedures

- 6.9 We will aim to update you on the progress of the concern within 28 days of it being raised, where possible. However, in the event of a formal investigation or the involvement of the police or other external agency, you will receive sufficient information about the outcome of any investigation to enable you to be informed that the concern is being dealt with.
- 6.10 Once the investigation has concluded, you will receive an explanation about how the matter has been addressed. If there are legal constraints, e.g. in a criminal investigation, you will receive sufficient information about the outcome of any investigation to enable you to be informed that the concern has been dealt with. If no further action is proposed we will inform you of the reasons for this in writing.
- 6.11 If the investigation is not completed within 3 months or in the time originally estimated for the investigation, we will provide regular updates as agreed with you.
- 6.12 Throughout any investigation, you will still be expected to continue your duties/role as normal unless deemed inappropriate.
- 6.13 Please note that the time estimates cited above are indicative only. We will respond to your concerns as quickly as possible but we will have to test your concerns. Rest assured though that testing your concerns is not the same as either accepting or rejecting them. The overriding principle for us will be the public interest. In order to be fair, initial enquiries may have to be made to decide whether an investigation is appropriate and, if so, what form it should take.

7. CONFIDENTIALITY

- 7.1 We will take steps in any investigation to ensure that confidentiality is maintained as far as possible and will endeavour to protect your identity. This should be possible in the majority of cases. Thus, any document, report or recommendation prepared by us in relation to the matter will not identify you unless:
- you have consented in writing to your identity being exposed, or
 - there is evidence to show that you have acted maliciously, or
 - we are under a legal obligation to do so, or
 - the information is already in the public domain, or
 - it is on a strictly confidential basis to a professionally qualified lawyer for the purpose of obtaining legal advice.
- 7.2 All parties will be under an obligation to use all reasonable endeavours to ensure that they keep the matter and all information relating to the disclosure strictly confidential except, as permitted under this procedure, as required by law or until such time as it comes into the public domain.

7.3 The same considerations of confidentiality should be afforded to the employee(s) at the centre of the concern as far as appropriate.

8. TRAINING

8.1 From time to time appropriate training will be given to Councillors, Corporate and Divisional Directors, Line Managers and employees and other workers in respect of the operation of the Whistleblowing Policy and Procedure.

8.2 It will also form part of the induction for Councillors and all new employees.

<p><i>Non-Executive Report of the:</i></p> <p>Audit Committee</p> <p><i>29th March 2018</i></p>	 <p>TOWER HAMLETS</p> <p>Classification: <i>Unrestricted</i></p>
<p>Report of: <i>Zena Cooke - Corporate Director - Resources</i></p>	
<p>Internal Audit Plan 2018/19</p>	

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

1. Introduction

- 1.1. This report presents the outline of Internal Audit Plan for 2018/19 detailed in Appendix 1. The plan was compiled using the Internal Audit Strategy approved by the Audit Committee in December 2010 and endorsed each year thereafter as part of the annual planning process. The Council is required under the Accounts and Audit Regulations 2015 to maintain an adequate and effective system of internal audit. This plan demonstrates the planned utilisation and coverage of internal audit resources to discharge this responsibility and conforms to Public Service Internal Audit Standards. The 2018/19 Audit Plan has a planning total of 1260 days for the provision of various audits within the 2018/19 Audit Plan. In addition, Appendix 1.1 identifies other audits which members may wish to consider.

- 1.2. The internal audit strategy details the methodology for developing the annual audit plan and sets out the role of internal audit and the process by which to direct the work of audit. The first step in this methodology is to obtain information about the population from which audit activity is to be selected. This was achieved by consulting with key officers, reviewing the authority’s corporate plan and risk registers and meeting with external audit. By gathering information and assessing the risks affecting each auditable system, resources have been directed at those areas with the highest risk significance. Details of the Governance based audit assessment methodology, Internal Audit Mission and Charter, Internal Audit strategy, Internal Audit Process and Risk Management Framework are attached at Appendices 2 to 8 for information.

- 1.3. The outcomes from the 2018/19 plan will provide those charged with Governance:
 - An overall opinion and assurance to support the Annual Governance Statement.
 - Assurance against the mitigation of key Directorate and Corporate risks.
 - Coverage of critical systems of the Council including finance, procurement, contract management and ICT systems.
 - Assurance around best value and efficiency opportunities.

- On-going advice and information on controls to management.
- Follow up on the progress on the implementation of audit issues.

1.4. For 2018/19, the Internal Audit Plan will focus on the following key themes:-

- Assurance around controls for Safeguarding vulnerable Adults, Young People and Children from serious harm and injury.
- Assurance around the delivery of efficiency savings from selected transformation and efficiency programmes and projects.
- Review of key governance arrangements for members and staff.
- Review of the effectiveness over the management of financial, people and other resources.
- Checking on officer compliance with key Council policies, plans and procedures.
- Review of key strategies and priorities of the Council.
- Review of selected services, Procurement projects, Strategic Commissioning and Contract Monitoring arrangements.
- Review of delivery of ICT contract.

2. Recommendations

- 2.1. That the Audit Committee considers the proposed Annual Internal Audit for 2018/19 at Appendix 1.
- 2.2 That Members may wish to consider other additional audits listed at Appendix 1.1, which have been drawn from the Audit Universe on the basis of Audit Needs Analysis.
- 2.2. That Members consider the Internal Audit Mission and Charter at Appendix 3.

3. Background / Methodology

- 3.1 The methodology for developing the Internal Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives.
- 3.2 This process uses four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the four assessment categories and what each is intended to measure.

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

- 3.3 Following this assessment, those systems with the highest score were added to the proposed audit plan based on the resources available. In addition to the above assessment, auditable areas that have a medium or low score, but in order to support the work of external audit or to provide assurance to key officers, also feature in this audit plan. These include areas such as the reviews of key financial systems, governance arrangements, grant audits, cash income and regularity/probity audits.

Resources

- 3.4 The table below shows how provisionally the plan will be resourced between the in-house staff and an audit partner, which would need to be procured as soon as possible.

Internal Audit Resources 2018/19		Days	Days
In-house	4 auditors @ 195 days	780	
	Management	150	
			930
Audit Partner	Core and ICT Audits	330	330
PLAN TOTAL			1,260

Please note – the analysis shown in the table above is subject to review. The Head of Audit and Risk Management will assess the audit plan and profile the plan in consultation with the Council’s S151 officer and the Audit Manager.

Annual Audit Plan

- 3.5 Appendix 1 shows the annual audit plan and provides a brief summary of the scope of each review. The plan also shows the source of the auditable area and its link to the authority's Strategic Plan Themes. The proposed plan will be presented at directorate DLTs and the CLT. Appendix 1.1 contains additional audits coming up for review which could potentially be factored into the plan subject to resource availability.
- 3.6 In summary, for 2018/19, the Internal Audit Plan comprises of 1260 days across all directorates. In line with the established protocols, all changes to the agreed 2018/19 plan will be reported to the Audit Committee in December 2018.

	Original plan 2017/18	Revised Plan 2017/18	Audit Plan 2018/19
Corporate systems	115	140	145
Governance	25	15	50
Children's	285	275	230
Health, Adults and Community	85	50	125
Place	230	145	140
Tower Hamlets Homes	130	130	120
Resources	225	240	200
Computer audit	100	100	100
Follow-up, management and reactive fraud provision	280	155	150
Total	1,475	1,250	1260

- 3.7 It should be noted that audits deferred from 2017/18 could be considered subject to resource availability. The reviews planned for Tower Hamlets Homes are subject to further consultation with the THH Executive Management Team.

4. Comments of the Chief Finance Officer

- 4.1. The Internal Audit Service currently has a gross budget of £1.2m. The audit plan detailed within this report will be delivered within this budget. A contingency provision exists to allow for an element of unplanned audit work to be undertaken should that be necessary in response to an urgent issue that would not otherwise be resourced.

5. Legal Comments

- 5.1. 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.

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

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

8. Risk Management Implications

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

9. Sustainable Action for a Greener Environment (SAGE)

- 9.1. There are no specific SAGE implications.

10. Crime and Disorder Reduction Implications

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



London Borough of Tower Hamlets

Risk, Internal Audit and Control – Audit Plan 2018/19

Contents

Context	2
Key Strategic Risks	3
The Role of Internal Audit	5
2018/19 Internal Audit Plan	6
Governance Based Audit Assessment Methodology	Appendix 2
The Internal Audit Charter	Appendix 3
The Internal Audit Strategy	Appendix 4
The Internal Audit Process	Appendix 5
The Monitoring Process	Appendix 6
Summary	Appendix 7
Risk Management Framework	Appendix 8

Context

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

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

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

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

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

Key Risks

The Audit Plan is based on three principal sources of information – Risk Registers (Strategic Risks and Directorate based service risks), our own risk analysis and management request. In formulating the Audit Plan, the key corporate risks and Directorate based risks have been considered. There are 13 corporate risks currently facing the Council which are being monitored by the CLT and the Audit Committee and are summarised below. These risks have been referenced within the Audit Plan, where applicable.

Risk Ref..	Risk
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.
ASD0017	Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response. The risk is increased if there was to be more than one incident at the same time.
CSA0002	Community Unrest.
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.
LPGLS0001	Non-compliance with corporate governance procedures.

Risk Ref..	Risk
RSB0019	Maintaining and strengthening financial viability/balance in 2016/17 to 2017/18.
DRCPCD0022	Failure to have in place a lease extension for Mulberry Place (or alternative temporary office location) one year prior to the end of the current lease (June 2019)
REV0007	Impact on local income from appeals on the new local rating effective from 1/4/17.
CSDSC0004	Incidents of serious violence where young people known to or in the care of the Local Authority are harmed or perpetrate harm in a community setting.
CSDR0011	The Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed school at Christchurch Primary School.
CSDSC0005	Loss of resources as a result of a failure to reach target Payment by Results claims, resulting in loss of capacity to deliver the Troubled Families programme. Reputational risk of being the only Local Authority in England to be withdrawn from the programme.
ICT-CT0010	That Agilisys are unable to perform as a strategic supplier with significant and consistent failures to meet SLAs
PLC0013	Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire following reassurance, advice, interim measures and completed, in progress or scheduled remedial actions to improve fire safety.

The Role of Internal Audit

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

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

The public sector internal audit stands defines internal audit as:

“an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

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

London Borough of Tower Hamlets 2018/19 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council-wide reviews	145	7-8
Corporate Director - Governance	50	9
Corporate Director - Health, Adults and Community	125	10-11
Corporate Director - Children's Services	230	12-13
Corporate Director - Place	140	14-15
Corporate Director - Resources	200	16-18
Tower Hamlets Homes	120	19-20
Information technology audits	100	21
Follow up, management and reactive fraud provision	150	21
Total Provision	1260	-

Internal Audit Plan 2018/19

Corporate and Council-Wide Reviews

Audit Title and Type of Audit	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Fire Safety of Council owned buildings Strategic	To provide assurance that the Council's systems for planning, controlling and monitoring of fire safety risks and checks are sound and secure	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Control and Monitoring of Agency Staff Strategic	The Council has procured a new contract for the provision of Agency Staff for temporary resources. This audit will review and test the procedures for controlling and monitoring the new Agency Staff contract with Addeco.	20	Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management of Security Incidents and Breaches and protocols Compliance	This audit will review the Council's systems and procedures for reporting, logging and investigating security and other incidents.	15	Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
LBTH Corporate Governance Strategic	A review of the Council's overall Corporate Governance Framework to support the Annual Governance Statement.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Delivery of Efficiency Savings Strategic	To provide assurance around the delivery of efficiency savings from selected transformation and efficiency programmes and projects.	15		<i>A transformed council, making best use of resources and with an outward facing culture</i>

Audit Title and Type of Audit	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Infrastructure Delivery Framework Strategic	To provide assurance over the governance and delivery framework for utilisation of CIL and S106 planning obligations monies to ensure that Council's objectives and priorities are met.	20	Management Request and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
GDPR Readiness Strategic	This audit will review the Council's implementation of the GDPR requirements providing assurance that the data processes and data governance arrangements are sound and secure.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Emergency Planning Strategic	This audit will review the Council's arrangements for planning, testing and responding to Civil Emergencies. The role of the Council and various agencies is defined within the Civil Contingencies Act 2004.	20	Management request and Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Total		145		

Corporate Director - Governance

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Management of Members' Enquiries Strategic	To provide assurance that members' enquiries are managed and addressed efficiently and effectively in accordance with the established procedures and protocols.	20	Management requests and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Members' Induction and Training Strategic	To provide assurance that Members receive an appropriate level of training and new Members are inducted into the Council to ensure they have the right skills and knowledge to discharge their functions.	15	Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Electoral Registration Compliance	To provide assurance that there are sound and secure systems in place for management of electoral registration, new registrations and any subsequent changes.	15	Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Total		50		

Corporate Director- Health, Adults and Community

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Electronic Home Care System Compliance	To provide assurance that the newly implemented electronic system is operating effectively to ensure that the service users receive the required service and payments are made only for the service/hours provided.	15	Audit Needs Analysis	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Contract Monitoring of Commissioned Services Strategic	This audit will examine systems and procedures for monitoring a sample of commissioned services for Adults and Public Health to ensure that providers effectively deliver the services to vulnerable service users, that payments are made in line with the rates set out in the contract and key outcomes are delivered.	20	Audit Needs Analysis Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Deprivation of Liberty Safeguards Compliance	This audit will review processing of applications, assessments of applications and authorisation of Deprivation of Liberty.	20	Audit Needs Analysis Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Quality Assurance systems Strategic	To provide assurance over the adequacy of the Quality Assurance systems and framework in place for Adults social care to ensure that it is consistently applied and that any findings from quality reviews are addressed and followed up.	15	Audit Needs Analysis Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Adults Safeguarding Strategic	This review will examine the governance arrangements for safeguarding vulnerable adults to ensure that the council has sound and secure policy and procedures for safeguarding vulnerable adults from neglect, harm , abuse and injury.	20	Audit Needs Analysis Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Rapid Response Team – Service Review Strategic	The Council's Rapid Response team works in conjunction with internal and external partners in specific geographical locations to decrease crime and antisocial behaviour. This audit will review the governance arrangements of the service to provide assurance that the service achieves the objectives and priorities of the council.	20	Management Request	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
FWi – Payment Control Compliance	This audit will select a sample of payments made to a range of service providers, orders for which have been raised on FW-I system, to test that payments are being made only for the services ordered, received and at the agreed rates.	15	Management Request and Audit Needs Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
Total		125		

Corporate Director - Children's Services

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Commissioning and Monitoring of Accommodation for Care Leavers Strategic	This review will examine policy and procedures for commissioning living accommodation for Care leavers. We will also review the procedures for monitoring of commissioned contracts and for making payments to the providers.	20	Management Request Risk Register CSD0016	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Contract Audit Compliance	We will select a sample of building works in progress and test the effectiveness of contract management and monitoring to ensure that building works are delivered on time and to the agreed budget.	15	Audit Needs Analysis Corporate Risk	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Schools Probity Audit Compliance	The school visits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; and other key areas of schools' business.	130	Annual Programme of Audit	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Leisure Services Contract Strategic	To provide assurance that the contract extension has achieved the objectives and priorities of the council and that contract terms and conditions are complied with and monitored	15	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Home Schooling Strategic	We will review the soundness of arrangements for supporting and monitoring the quality of education provided through home schooling.	20	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Troubled Families Grant Strategic	This will be a review of controls to produce Trouble Families pay by result return for grant certification and validation.	15	Management Request Corporate RiskCSDSC0005	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Outdoor Education Provision Strategic	To provide assurance over the governance and management of the outdoor education service transferred from Youth service	15	Management request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Total		230		

Corporate Director - Place

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Transport Service Review Strategic	To carry out a service review the governance and operational aspects of the Council's transport services provision.	15	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Enforcement Service Review Strategic	To carry out a service review of the Council's Enforcement service to ensure that council objectives, priorities and legislative requirements are met.	20	Audit Needs Analysis Management Request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Dangerous Structures Compliance	This audit will provide assurance over the systems and procedures for managing and monitoring dangerous structures reported to the council by various agencies and members of public.	15	Audit Needs Analysis Management Request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>

Page 112

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Repairs and Maintenance of Administrative buildings Strategic	We will review systems for identifying, ordering, inspecting, paying and monitoring the reactive and planned repairs and maintenance works to Administrative Buildings of the Council.	20	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Management of Markets Strategic	To review the arrangements for managing and monitoring various aspects of Markets. Scope to be agreed with the Divisional Director, Public Realm.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Handy Person's service Compliance	This audit will review the newly restructured Handy persons Service to provide assurance that the service is efficient , effective and meets Council's objectives.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
New Town Hall Building Project Strategic	To provide assurance that there are sound and secure project management arrangements in place to manage and monitor various contractual agreements for commissioning and building of the new town hall.	15	Audit Needs Analysis Corporate Risk DRCPCD0022	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Recycling Contract Monitoring Strategic	To provide assurance around the contract monitoring of the recycling contract.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Total		140		

Corporate Director - Resources

	Broad Scope	Audit days	Audit Source	Link with Council's Strategic Plan Themes
MSG Grant Programme Follow Up Strategic	We will follow up the recommendations agreed at the conclusion of the 2017/18 audit.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Income Maximisation project Strategic	This review will provide audit advise and input into the income maximisation project to provide assurance that the project is delivering its key objectives and outputs.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Procurement Compliance Compliance	To carry out compliance testing to provide assurance that the Council's Procurement Procedures are fit for purpose and that compliance with procedures are controlled and monitored to achieve the objectives of the Council.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Supplier Set Up and Supplier Resilience Strategic	To provide assurance that due diligence checks including financial stability , insurances arrangements and other regulatory compliance checks are undertaken before engaging with a new supplier. And that during the contract period there are sound systems for assessing and reporting suppliers' resilience to ensure that they can perform the contract as required.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>

	Broad Scope	Audit days	Audit Source	Link with Council's Strategic Plan Themes
Treasury Management Core Financial	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
HR/payroll Core Financial	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Tollgate Process Strategic	We will review the soundness of various procurement tollgates to provide assurance that there is an adequate level of scrutiny and challenge over the procurement process.	20	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Creditors Core Financial	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Debtors Core Financial	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	Broad Scope	Audit days	Audit Source	Link with Council's Strategic Plan Themes
Pensions Core Financial	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Housing and Council Tax Benefit Core Financial	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Housing Rents Core Financial	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
ICT Contract Monitoring Strategic	This audit reviewed the arrangements in place for an effective client monitoring of the ICT contract with Agilisys.	15	Audit Needs Analysis Corporate Risk ICT-CT0010	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Total		200		

Tower Hamlets Homes

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Right to Buy Compliance	To review the management and administration of Right to Buy process to provide assurance that legislative and other requirements are complied with.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management of Complaints Strategic	This audit will review the systems and procedures for managing complaints to ensure that the systems are sound and secure and that service failures are addressed.	20	Management Request and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management and Control of Security breaches and Incidents Compliance		10	Management Request and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
THH Governance Strategic	We will review the corporate governance arrangements of the ALMO to ensure that the key components of good governance are in place.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

Tower Hamlets Homes	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Financial Systems Core Financial	This audit will review the robustness of key financial systems such as income and expenditure systems, cash flow forecasting, Treasury Management, VAT and reconciliation processes, as part of the annual assurance on the soundness of financial control across THH.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Follow Up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Contract Audits Compliance	We will review the effectiveness of systems and controls for procuring, managing and monitoring building contracts to ensure effective cost control and programme control.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Total		120		

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Information Technology		100		
Other				
Follow up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	60		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management Requests	This is an allocation of days to service management requests for undertaking consultancy related work	40		<i>A transformed council, making best use of resources and with an outward facing culture</i>
Management Time	Provision for management time to direct, control and monitor the work of the team.	50		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Grand Plan Total		1260		

Audits to be Considered but not included in the Plan

Appendix 1.1.

Corporate and Council-wide Reviews	Audit Days	Place Directorate	Audit Days	Governance Directorate	Audit Days
Management of Complaints	15	Control of Public Art, sculptures and valuables	10	Management of FOI requests	10
Scheme of Delegation	15	Display Screen Equipment (DSE) Assessment and Data Quality	10	Legal Planning Meetings	20
Management of Asbestos and Legionella	15	S 106 Non-financial Obligations	15	Contract Signing and Sealing	20
Management of Efficiency Programme	15	Planning Decisions and Governance	20	Members Allowances and Payments	10
Sickness Management	20	Licensing of Private Landlords	20	Members Expense Claims	5
Service Planning	15	Fixed Penalty Notices	15	Procurement of Legal advice	15
Management of Mayoral Priorities	15	Children's Services Directorate		Tower Hamlets Homes	
Scheme of Delegation	15	Grouped Schools PFI	25	Staff Declarations of Interests	15
Apprentice Levy	15	Pupil Referral Unit	10	Performance Management	15
Compliance with Prevent Duty	20	Meals on Wheels – Income Collection and Banking	10	Information Security and DPA control	15
Sickness Management	20	Teachers Pensions - Arrears	10	Policing of ASB	15
Efficiency Savings	20	Community Languages	15	Management of Conditions Surveys	10
		Special Education Needs and Disability (SEND)	20	Efficiency savings	10

Page 120

	<i>Audit Days</i>		<i>Audit Days</i>		<i>Audit Days</i>
Health, Community and Adults Directorate		Resources Directorate			
Day Centres	10	Governance post Re-structure	15		
Luncheon Clubs	15	Business Transformation – Customer Facing	20		
Delivery of Substance Misuse services	15	Grants Payments System	10		
Occupation Therapy	15	Management and Control of Job Evaluation	10		
Brokerage	20	Management of Variable Pay	15		
Assessment of Needs	20	Homeless Income and Arrears	20		
Court of Protection (receivership)	15	General Ledger	10		
Reviews of Care Plans	20	NNDR	10		
Customer Journey	20	Council Tax	15		
		Revenue and Capital Budget Monitoring	15		

Assessment Categories

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

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

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

Assessment Process

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

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

Calculation of the Audit Risk Index

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

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

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

Results of the Audit Risk Assessment

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

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

Internal Audit Risk Assessment Matrices

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Mission and Charter

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation.

The Mission of LBTH Internal Audit Service is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

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

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

Purpose

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

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

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

Authority

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

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

Responsibility

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

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

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

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

Reporting

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

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

Independence

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

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

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

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

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

Due Professional Care

The Internal Audit function is bound by the following standards:

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

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

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

The Internal Audit Strategy

This Strategy sets out how the Council's Internal Audit service will be delivered in accordance with the Internal Audit Charter.

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

Internal Audit Objectives

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

It is the Council's intention to provide a best practice, cost efficient internal audit service.

Internal Audit's Remit

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

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

- Provide management and members with an independent, objective assurance and consulting activity designed to add value

and improve the Council's operations.

- Assist the Audit Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service; and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

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

Service Delivery

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

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

Internal Audit Planning

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

- Discussions with the Council's Management Team (CMT) and management
- The Council's Risk Register
- Outputs from other assurance providers
- Requirements as agreed in the joint working protocol with External Audit

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

The Internal Audit Plan 2017/18 is composed of the following:

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

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

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud and Ad Hoc Work:** A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.
- **Knowledge and Insight:** The Head of Audit and Risk Management, in conjunction with the Internal Audit and the Corporate Fraud teams, will use the knowledge and insight gained of the organisation and carry out reviews in specific areas.

Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the Audit Committee on a quarterly basis.

Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

Reporting

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

The Internal Audit Process

The Pre-Audit Stage

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

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

During the Audit

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

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

Post Audit Stage

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

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

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

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

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

The Monitoring Process

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

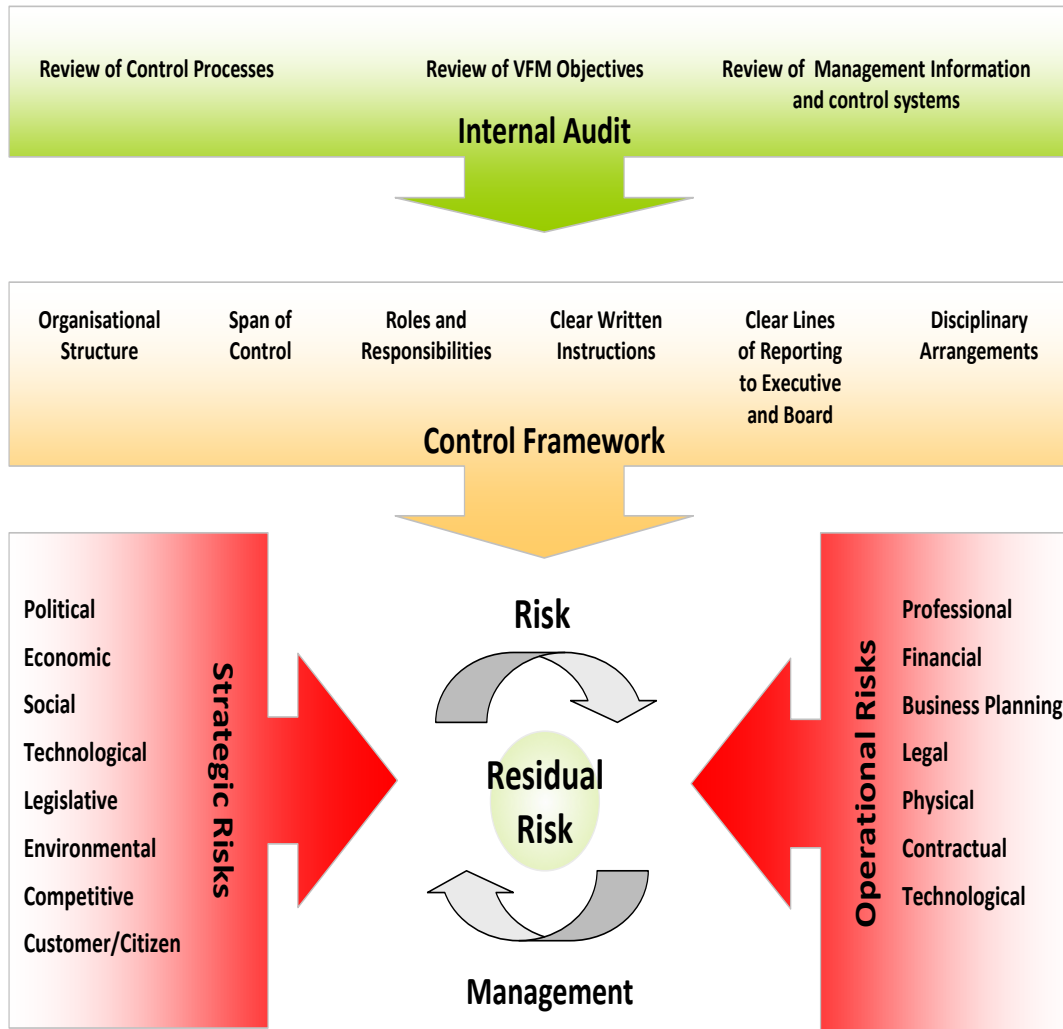
Internal Audit recommendations are classified as follows:

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

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

Summary

Appendix 6



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

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

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

Risk Management Framework

Definitions

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

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

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

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



Objectives of Risk Management:

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

These Objectives will be Achieved by:

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

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

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

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

Roles and Responsibilities

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

Risk Management Action Plans

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

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

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

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

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


Classification of Risk

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

Competitive Failure to show best value Failure of bids for government funds	Customer/Citizen Lack of appropriate consultation Bad public and media relations		
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Agenda Item 4.6

<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>29 March 2018</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Zena Cooke, Corporate Director, Resources</p>	<p>Classification:</p> <p>Unrestricted</p>
<p>Treasury Management Quarterly Update Report (October 2017 - December 2017)</p>	

<p>Originating Officer(s)</p>	<p>Bola Tobun – Investment & Treasury Manager</p>
<p>Wards affected</p>	<p>All Wards</p>

Summary

<p>This Report is produced in accordance with the CIPFA Treasury Management Code of Practice.</p> <p>It covers the quarter ending December 2017</p>	<p>The report advises the Audit Committee of the Council's borrowing and investment activities for quarter ending 31st December 2017.</p> <p>The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2017/18 were approved by the Council on 22nd February 2017 as required by the Local Government Act 2003.</p> <p>The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the impact of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.</p>
<p>The Council in its 2018/19 budget setting report (Feb. 2018) approved proposals to increase the returns from its investments by £1.4m.</p> <p>An approach to delivering this increased return is set out in section 3.9 of this report.</p>	<p>This Report advises the Audit Committee of the work carried out in this area alongside our Treasury Management advisors and identifies a selection of pooled investment funds that we are proposing to invest in to generate these higher returns over the longer term in accordance with the investment strategy approved in February 2018 by the Full Council.</p> <p>The risk profile of these investments is an important consideration for the Committee since higher returns often implies higher levels of risk.</p>
<p>For the quarter to December 2017 an investment return of 0.57% has been achieved.</p> <p>The annual UK rate of Inflation (Consumer Price Index) in November 2017 was 3.1%</p>	<p>Previously the 7 day London Interbank Bid Rate (LIBID) has been used to measure performance of the Council's investment returns; for the same reporting quarter this rate was 0.27%.</p> <p>Given that the Council's has held significant cash holdings over a prolonged period this is no longer considered to be an appropriate performance measure. A comparison with the measure of UK inflation illustrates that the value of the</p>

	<p>Council's cash holdings is not keeping pace with inflation and therefore its capital value is eroding.</p> <p>The January 2018 rate of CPI inflation was 3%</p>
<p>There has been full compliance with Prudential Indicators (PI) and Treasury Management (TM) indicators.</p>	<p>Over the reporting period, all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement. No long-term or short-term borrowing has been raised since the commencement of this financial year 2017/18 to reporting period.</p>

Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for the quarter ending 31 December 2017;
- note the Council's investments as set out in Appendix 1. The balance outstanding as at 31 December 2017 was £467.8m which includes £40m, pension fund cash awaiting investment; and
- note the list of selected pooled funds officers are considering for longer term investment as set out in appendix 2, and approve the approach for this strategic portfolio detailed in section 3.9.

1. **REASONS FOR THE DECISIONS**

- 1.1 The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 require that regular reports be submitted to the relevant Council Committee detailing the council's treasury management activities.
- 1.2 This report updates members on both the borrowing and investment decisions made by the Corporate Director, Resources under delegated authority in the context of prevailing economic conditions and considers the Council's Treasury Management performance.
- 1.3 The regular reporting of treasury management activities assists Members to scrutinise officer decisions and monitor progress on the implementation of its investment strategy as approved by Full Council.

2. **ALTERNATIVE OPTIONS**

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

3. DETAILS OF REPORT

- 3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 3.2 Treasury management is defined as “the management of the Council’s investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 3.3 The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Full Council on 22 February 2017.

3.4 ECONOMIC COMMENTARY

- 3.4.1 The significant economic event for this period was the increase in the Bank Base Rate in November by 0.25% to 0.50%, making it the first increase by the Bank of England’s Monetary Policy committee (MPC) to rates since July 2007. The vote to increase the Bank base Rate was 7-2, reflecting the MPC’s growing concern that rising inflation had finally outweighed the risks to growth. The MPC has reiterated that it expects any future increases in Bank Base Rate to be at a gradual pace and limited in extent.
- 3.4.2 Commodity prices rose over the period with oil increasing to around US\$67 a barrel from a low of US\$42 in June 2017. The UK Consumer Price Inflation (CPI) index continued to rise with the data for November showing CPI at 3.1%, its highest since March 2012 as the fall in the value of sterling following the June 2016 referendum result continues to feed through into higher import prices.
- 3.4.3 In the face of a struggling economy and Brexit-related uncertainty, the Council’s treasury adviser - Arlingclose expects the Bank of England to take a very measured approach to any monetary policy tightening. Any increases in the Bank base rate will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.
- 3.4.4 The Financial Times Share Index (FTSE) 100 continued to climb, reaching yet another record high of 7688 at the end of calendar year. Money markets rates, unsurprisingly, have increased over the quarter: 1-month, 3-month and 12-month LIBID rates have averaged 0.43%, 0.47% and 0.76% over the period October-December.
- 3.4.5 **Credit background:** Much of the activity by credit rating agencies during this quarter is related to the upcoming UK bank ringfencing which will take effect in 2018. Ringfencing requires the larger UK banks to separate their core retail banking activity from the rest of their business, resulting in two separate banks. In general, the agencies expect to give the ringfenced “retail” bank a higher credit rating than the non-ringfenced “investment” bank. In practice, this will only affect Barclays, HSBC, Lloyds and RBS as other UK banks and building societies either only conducts retail banking activities or have less than £25 billion of deposits covered by the Financial Services Compensation Scheme.

3.4.6 Barclays Bank plc was upgraded to A from A- by Standard & Poor's (S&P), after the bank announced its plans for its ringfenced bank, Barclays Bank UK plc, and the non-ringfenced bank, Barclays Bank plc. S&P also assigned preliminary ratings of 'A/A-1' to Barclays Bank UK plc.

3.4.7 In November S&P revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings. These reflect the agency's view that the institutions now show increased resilience, have made substantial progress in meeting regulatory capital requirements and are now better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019.

3.4.8 There have been no changes to Arlingclose's investment advice regarding banks and building societies during this quarter.

3.5 ECONOMIC OUTLOOK AND INTEREST RATE FORECAST

3.5.1 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. The Bank of England's Monetary Policy Committee's decision to raise the Bank Base Rate is likely to reduce inflation, all other things remaining equal, but is likely to have negative effect on what was already a weak growth outlook.

3.5.2 Arlingclose's central case is for Bank Base Rate to remain at 0.50% over the period to March 2021, whilst introducing upside risks from September 2018, and downside risks from March 2019.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

3.6 TREASURY MANAGEMENT STRATEGY 2017/18

3.6.1 The Council's Treasury Management Strategy was approved on 22 February 2017 by Council. The Strategy comprehensively outlines how the treasury function would operate throughout the financial year 2017/18 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt. The Council complied with the strategy throughout the reporting period and all investments were made to counterparties within the Council's approved lending list.

3.6.2 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The balance sheet summary position at 31 March 2017 is shown in Table 1 below, with the treasury management position as at 31st December 2017 shown in table 2 below. The difference between the Borrowing CFR (£245.4m) and the level of external borrowing (£85.9m) represents the extent of internal borrowing.

Table 1: Balance Sheet Summary

	31st March 2017 Actual £m
General Fund CFR	206.037
HRA CFR	75.666
Total CFR	281.703
Less: Other debt liabilities *	(36.304)
Borrowing CFR	245.399
Less: Usable reserves	(478.489)
Less: Working capital	(128.274)
Net (investments)	(361.364)

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

Table 2: Treasury Management Summary

	31.03.17 Balance £m	31.09.17 Balance £m	Movement over the Quarter £m	31.12.17 Balance £m	31.12.17 Rate %
Long-term borrowing	85.936	85.936	0.000	85.936	4.55
Short-term borrowing					
Total borrowing	85.936	85.936	0.000	85.936	4.55
Long-term investments	25.000	20.000	20.000	40.00	
Short-term investments	295.500	251.000	(28.000)	223.000	
Cash and cash equivalents	126.800	176.100	28.700	204.800	
Total investments	447.300	447.100	20.700	467.800	0.57
Net investments	361.364	361.164	20.700	381.864	

Borrowing Strategy during the quarter ending 31st December 2017

3.6.3 The Council held £85.936m of external loans at 31st December 2017 which is the same position as at 31st March 2017. No borrowing has been undertaken and no debt rescheduling opportunities have arisen during this financial year as the cost of premiums outweighs savings that could be made from the lower PWLB borrowing rates. The borrowing position as at 31st December is shown in table 3 below.

Table 3: Borrowing Position

	30.12.17 Balance £m	30.12.17 Rate %	30.12.17 WAM* years
Public Works Loan Board	8.436	6.64	7.5
Banks (LOBO)	60.000	4.32	42.3
Banks (fixed-term)	17.500	4.34	60.0
Total borrowing	85.936	4.55	42.5

*Weighted average maturity

- 3.6.4 The Council takes a low risk approach to its borrowing strategy. This means that the principal objective when borrowing has been to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The secondary objective being to have flexibility to renegotiate loans should the Council's long-term plans change.
- 3.6.5 The Council continues to hold £60m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates. The Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during this reporting quarter or since the start of this financial year.

Investment Activity

- 3.6.6 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During this reporting quarter, the Council's investment balance ranged between £447m to £490m due to timing differences between income and expenditure. The investment position during the quarter is shown in table 4 below.
- 3.6.7 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Table 4: Investment Position

	31.03.17 Balance £m	30.09.17 Balance £m	Movement over the Quarter £m	30.12.17 Balance £m
Banks & building societies (unsecured)	240.000	235.000	(55.000)	180.000
Government (incl. local authorities)	165.500	166.000	84.000	250.000
Money Market Funds	41.800	46.100	(8.300)	37.800
Total investments	447.300	447.100	20.700	467.800

Performance Report

- 3.6.8 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 5 below. The Council's budgeted investment return for 2017/18 is **45bps** (0.45%) with average cash balance of £350m, the performance for the year to reporting period is **57bps** with average cash balance of £435m.

Table 5: Investment performance for financial year to 31st December 2017

Period	Benchmark Return	LBTH Performance	Over/(Under) Performance
Full Year 2016/2017	0.30%	0.63%	0.33%
Quarter 1	0.11%	0.42%	0.31%
Quarter 2	0.11%	0.53%	0.42%
Quarter 3	0.27%	0.57%	0.30%
2017/18 Year to Period	0.17%	0.57%	0.40%

Investments Outstanding & Maturity Structure

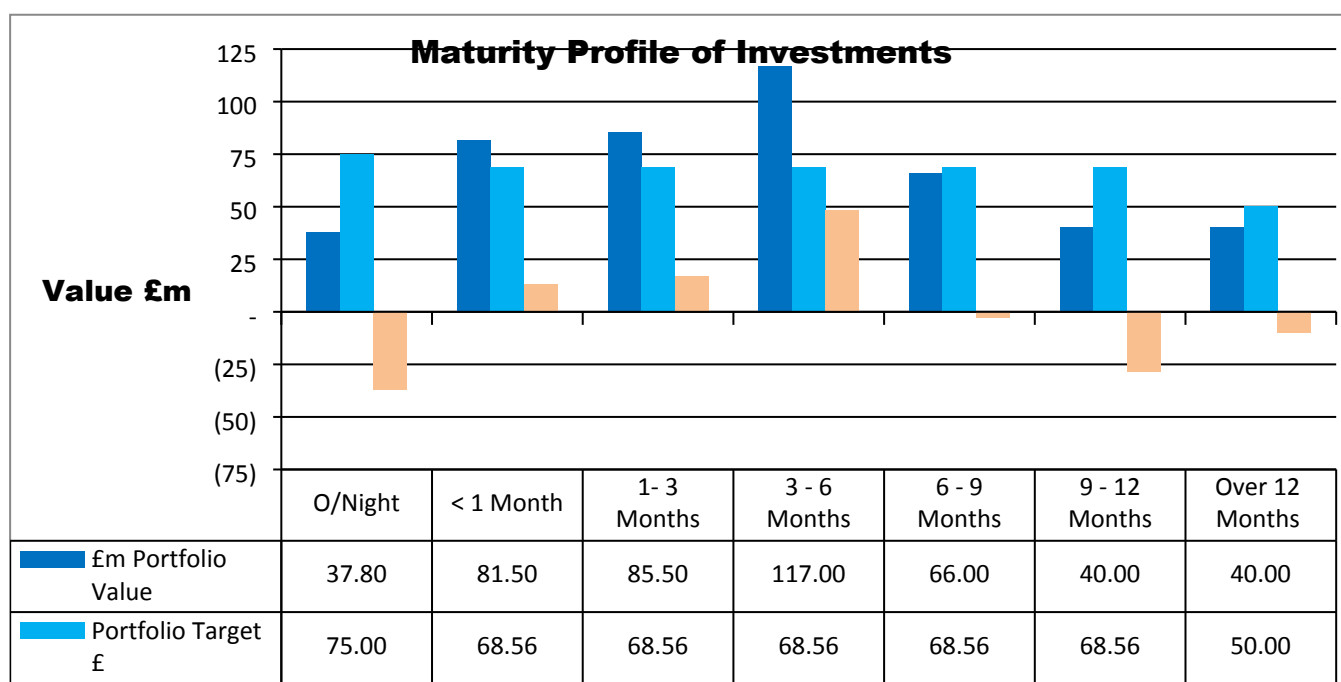
3.6.9 Table 6 below shows the amount of investments outstanding at the end of December 2017 split according to the financial sector.

Table 6

FINANCIAL SECTOR	£m	%
Banks in the UK	55.00	11.76
Building Societies in the UK	20.00	4.28
Banks in the Rest of the World	105.00	22.44
Government & Local Authorities	250.00	57.44
Money Market Funds	37.80	8.08
Investments Outstanding as at 31/12/2017	467.80	100.00

3.6.10 Chart 1 below illustrates the maturity structure of deposits at 31st December 2017; we have £37.8m as overnight deposits, and this is predominantly Money Market Funds.

Chart 1 – Maturity of Investment Portfolio as at 31st December 2017



- 3.6.11 The Weighted Average Maturity (WAM) for outstanding investment portfolio is 155 days; this is the average number of outstanding days to maturity of each deal from 31st December 2017. This indicates a very low number of investments over 12 months. Para 3.4.4 indicated the range of returns against the LIBID benchmark for 1, 3 and 12 month durations. Based on our current structure the WAM of c5 months would suggest a return of closer to 0.76% should be achievable rather than the actual return of 0.57%.
- 3.6.12 Given the increasing risk and falling returns from short-term unsecured bank investments, the Council is looking to further diversify its investment portfolio into more secure and/or higher yielding asset classes. There is currently £200m that is available for longer-term investment and this will be moved from local authorities, bank and building society deposits into covered bonds, corporate bonds and also into pooled property/bond/equity funds. This action will diversify the investment risk and as a consequence, the average rate of return of investment will increase.

3.7 Investment Benchmarking

- 3.7.1 LBTH participates in a benchmarking club to enable officers to compare the council's treasury management / investment returns against those of similar authorities. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 150 local authorities. The progression of risk and return metrics are shown in table 5 and the charts below are extracts from Arlingclose's quarterly investment benchmarking report.

Table 5: Investment Benchmarking

	Tower Hamlets		13 London & Metropolitan Average	150 Local Authorities (LAs) Average
	30.09.2017	31.12.2017		
Internal Investments	£447.1m	£467.8m	£111.0m	£63.1m
External Funds	£0.0m	£0.0m	£5.2m	£10.2m
Average Credit Score	4.53	4.33	4.45	4.51
Average Credit Rating	A+	AA-	AA-	A+
Number of Counterparties & Funds	30	34	17	16
Proportion Exposed to Bail-in	38%	28%	56%	61%
Proportion Available within 7 days	24%	21%	40%	41%
Proportion Available within 100 days	52%	52%	69%	68%
Average Days to Maturity	149	155	100	41
Internal Investment Return	0.53%	0.57%	0.57%	0.54%
External Funds - Income Return			1.33%	3.41%
Total Investments - Total Return	0.53%	0.57%	0.73%	1.14%

- 3.7.2 It can be seen that as at 31st December LBTH investment portfolio was delivering just half the level of income (0.57%), compared to that of the average of 150 other LAs income (1.14%), whilst average of other London Boroughs and Metropolitan Boroughs generated income of 0.73%.
- 3.7.3 The reason why the Council is receiving investment income lower than the average other LAs is because they have external pooled fund investments generating an average income of 3.41% per annum. We are proposing to adopt this approach in order

to generate the additional income proposed as part of the 2018/19 budget setting process. This is discussed further in section 3.9.

3.8 **Compliance Report**

3.8.1 All treasury management activities undertaken from the beginning of this financial year 2017/18 to the current reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

3.8.2 Compliance with the authorised limit and operational boundary for external debt is set out in table 8 below.

Table 8: Debt Limits

	2017/18 Forecast	30.09.17 Actual	31.12.17 Actual	2017/18 Operational Boundary	2017/18 Authorised Limit	Complied
Borrowing	90.833	85.936	85.936	245.299	265.256	✓
PFI & finance leases	34.957	34.957	34.957	34.957	35.000	✓
Total debt	125.790	120.893	120.893	280.256	300.256	✓

3.8.3 The Council measures and manages its exposures to treasury management risks using a range of indicators.

3.8.4 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.09.17 Actual	30.12.17 Actual	2017/18 Target	Complied
Portfolio average credit rating	A+	AA-	A-	✓

3.8.5 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	30.09.17 Actual	30.12.17 Actual	2017/18 Target	Complied
Total cash available within [3] months	£176.10m	£119.3m	£75m	✓
Total sum borrowed in past [3] months without prior notice	nil	nil	nil	✓

3.8.6 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.12.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£0.970m	10%	0%	✓
12 months and within 24 months	£1.673m	30%	0%	✓
24 months and within 5 years	£3.421m	40%	0%	✓
5 years and within 10 years	£1.163m	80%	0%	✓
10 years and above*	£78.709m	100%	0%	✓

*This includes £60m LOBO with maturity date over 60 years and it could be call for repayment within the next 6 months following the last interest payment date ,but there is a very slim chance of this happening hence it is included in this category

- 3.8.8 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£40m	£40m	£20m
Limit on principal invested beyond year end	£100m	£100m	£100m
Complied	✓	✓	✓

3.9 **Strategic Investment Update**

- 3.9.1 The Council's investment strategy was amended during 2016 to increase the scope to invest £100m for periods of longer than one year and up to 5 years. Given that returns from cash deposits and similar products are likely to remain low for many years to come, the advice of the Council's treasury adviser has been sought on long-term cash balances that we could actively invest in alternative asset classes. Pooled property, bond and equity funds which typically generate income returns of 3% to 7% and have the potential for capital appreciation.
- 3.9.2 Arlingclose has a Fund Suite which has a catalogue range of different (over 25) research pooled funds, which is being monitored by the advisers by meeting with the fund managers regularly to discuss their performance and strategies.
- 3.9.3 Further to the previous discussion officers had with the Committee at their last meeting in January 2018, officers have continued to work with the advisers to identify suitable funds for the Council's strategic portfolio (attached as Appendix 2), the funds were selected from the adviser's Fund Suite based on their risk characteristics and historic performance.
- 3.9.4 With the Council holding over £400m of investment balances at present, there is scope to invest £100m to £150m into these longer term investment funds. This is estimated to generate returns averaging between 2% and 3%, and so an additional £2.m to £4.5m of investment income might be possible. The budget proposal tasked officers with delivering an additional £1.4m from this approach.
- 3.9.5 As any capital gain on these funds will fluctuate (with the possibility of losses); it is also proposed to create a provision for capital losses from some of the investment returns

above the £1.4m growth target. This will be applied over a five year investment time horizon to offset capital future losses arising from property and equity value falls.

- 3.9.6 The initial intention is to have these investment funds operational for the Council and then to rebalance having regard to guidance from the advisor and future reports to the Committee will highlight progress and performance of these funds separately. Note that the allocation to these funds will be reviewed and amended to lock in achieved returns. Investments such as property and equities (company shares) do not generate linear returns – there will be periods of over and under performance which will be managed through the medium term financial plan over the longer term. Property and equities have performed well in recent years and given that there is concern that equities in particular will continue to outperform without some losses at some point a cautious approach will be adopted initially in respect to equities.

4. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 4.1 This report provides an update on Treasury Management activities during quarter 3 of 2017/18 (October 2017-December 2017).
- 4.2 The Council held an outstanding internally managed investments portfolio of £467.8m as at 31st December 2017. This portfolio earned an average rate of return of 0.57%. However, inflation is currently eroding the value of this asset.
- 4.3 The Council has an investment income target of £2.525m for 2017/18 and current forecasts indicate that this will be achieved.
- 4.4 The Council is adopting a revised approach to its investment activities in line with approvals given in the 2018/19 Treasury management Strategy and its MTFS to increase the level of investment income it generates during 2018/19 and is taking steps to achieve this through the strategy detailed in section 3.9 above. Consequently a higher investment income target of £3.983m has been set for 2018/19.

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.
- 5.3 This noting report of the Corporate Director, Resources advises the Committee of the Council’s borrowing and investment activities for the quarter ending 31st December 2017 and is consistent with the key principles expressed in the Treasury Management Code. 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.

- 5.4 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.

APPENDICES

Appendix 1 – Investments Outstanding at 31st December 2017

Appendix 2 – Initial Strategic Portfolio as at 31st December 2017 (**Confidential**)

Appendix 3 – Glossary

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

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

Arlingclose LTD - Treasury Management Benchmarking Report and Quarter 3 2017/18
Report Template

Brief description of “background papers’

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

Bola Tobun, x4733, Mulberry Place

Appendix 1: Investments Outstanding as at 31st December 2017

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Amundi MMF		MMF	12.80	
	BNP Paribas MMF		MMF	25.00	
	SUB TOTAL			37.80	
< 1 Month	London Borough of Croydon	22/09/2017	02/01/2018	10.00	0.35%
	London Borough of Hounslow	25/09/2017	02/01/2018	6.50	0.35%
	South Tyneside Metropolitan Borough Council	29/09/2017	02/01/2018	10.00	0.35%
	Tameside MBC	25/09/2017	03/01/2018	10.00	0.35%
	Merthyr Tydfil	25/10/2017	04/01/2018	5.00	0.35%
	Surrey County Council	05/10/2017	05/01/2018	20.00	0.35%
	Birmingham City Council	18/12/2017	18/01/2018	5.00	0.42%
	Kent County Council	14/09/2017	22/01/2018	10.00	0.30%
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20%
		SUB TOTAL			81.50
1 - 3 Months	Glasgow City Council	27/10/2017	31/01/2018	15.00	0.40%
	Slough Borough Council	20/02/2017	19/02/2018	5.50	0.60%
	Kent County Council	14/09/2017	22/02/2018	10.00	0.32%
	West Dunbartonshire Council	27/10/2017	27/02/2018	6.00	0.42%
	Development Bank of Singapore	06/09/2017	06/03/2018	20.00	0.34%
	Skipton BS	23/03/2017	22/03/2018	5.00	0.78%
	Cambridgeshire County Council	28/09/2017	28/03/2018	10.00	0.50%
	Northamptonshire County Council	29/09/2017	29/03/2018	14.00	0.50%
		SUB TOTAL			85.50
3 - 6 Months	Santander		CALL 95	20.00	0.60%
	Rushmoor Borough Council	21/12/2017	03/04/2018	12.00	0.53%
	Principality Building Society	06/04/2017	06/04/2018	5.00	0.78%
	North Lanarkshire Council	13/11/2017	13/04/2018	5.00	0.55%
	Toronto Dominion Bank	16/10/2017	16/04/2018	20.00	0.50%
	Newcastle Building Society	28/04/2017	27/04/2018	5.00	0.80%
	Royal Bank of Scotland	28/04/2017	30/04/2018	5.00	1.79%
	Nottingham Building Society	09/05/2017	08/05/2018	5.00	0.77%
	Commonwealth Bank of Australia	17/05/2017	16/05/2018	15.00	0.53%
	Australia & New Zealand Banking Group	17/05/2017	16/05/2018	10.00	0.52%
	Australia & New Zealand Banking Group	17/05/2017	16/05/2018	10.00	0.52%
	Royal Bank of Scotland	22/12/2016	22/06/2018	5.00	0.79%
		SUB TOTAL			117.00
6 - 9 Months	Commonwealth Bank of Australia	03/07/2017	02/07/2018	10.00	0.52%
	Northamptonshire County Council	05/10/2017	05/07/2018	6.00	0.55%
	Royal Bank of Scotland	31/07/2017	31/07/2018	10.00	0.90%
	Royal Bank of Scotland	19/08/2017	19/08/2018	5.00	0.91%
	Glasgow City Council	21/12/2017	12/09/2018	5.00	0.65%
	Lancashire County Council	25/09/2017	24/09/2018	10.00	0.55%
	Royal Bank of Scotland	22/12/2016	24/09/2018	5.00	0.84%
	Enfield Council	25/09/2017	24/09/2018	15.00	0.55%
	SUB TOTAL			66.00	
9 - 12 Months	Southampton City Council	02/10/2017	01/10/2018	10.00	0.60%
	Rabobank	06/10/2017	05/10/2018	20.00	0.68%
	Lancashire County Council	06/10/2017	05/10/2018	10.00	0.58%
	SUB TOTAL			40.00	
> 12 Months	Bournemouth Borough Council	25/09/2017	25/09/2019	20.00	0.75%
	Thurrock Borough Council	08/11/2017	08/11/2019	20.00	1.05%
	SUB TOTAL			40.00	

Appendix 3 – 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 &	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target

RPI)	on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid

	for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council's Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
Specified Investments	Investments that meet the Council's high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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