

# Audit Committee



Thursday, 12 November 2020 at 5.30 p.m.

Online 'Virtual' Meeting - <https://towerhamlets.public-i.tv/core/portal/home>

## Agenda

**Chair: Councillor Val Whitehead**

### Members

Vice-Chair:

Councillor David Edgar, Councillor Marc Francis, Councillor Ayas Miah, Councillor Puru Miah, Councillor Kyrsten Perry, Councillor Dan Tomlinson and Councillor Andrew Wood

### **Observers (Independent Persons):**

Charlotte Webster (Independent Person)

### **Substitutes:**

Councillor Kevin Brady, Councillor Bex White, Councillor Abdal Ullah and Councillor Peter Golds

[The quorum for Audit Committee is 3 Members]

### **Further Information**

Reports for consideration, meeting contact details, public participation and more information is available on the following pages.



## Public Information

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<http://towerhamlets.public-i.tv/core/portal/home>

### Contact for further enquiries:

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## Audit Committee

Thursday, 12 November 2020

5.30 p.m.

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### APOLOGIES FOR ABSENCE

#### 1. DECLARATIONS OF INTEREST

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Members are reminded to consider the categories of interest, identified in the Code of Conduct for Members to determine: whether they have an interest in any agenda item and any action they should take. For further details, see the attached note from the Monitoring Officer.

Members are also reminded to declare the nature of the interest at the earliest opportunity and the agenda item it relates to. Please note that ultimately it is the Members' responsibility to identify any interests and also update their register of interest form as required by the Code.

If in doubt as to the nature of an interest, you are advised to seek advice prior the meeting by contacting the Monitoring Officer or Democratic Services.

#### 2. APPOINTMENT OF VICE CHAIR

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

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To confirm the minutes of the Audit Committee held on the 21<sup>st</sup> July 2020.

#### 4. DELOITTE ITEMS FOR CONSIDERATION

##### 4 .1 Deloitte Report to the Audit Committee - Audit Year Ending 31st March 2020

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#### 5. TOWER HAMLETS ITEMS FOR CONSIDERATION

##### 5 .1 Update on 2018/19 and 2019/20 Accounts and Audit

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<b>5 .2</b>	<b>Audit Committee Terms of Reference, Membership, Quorum and Dates of Meetings</b>	35 - 46
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<b>6.</b>	<b>AUDIT COMMITTEE WORK PLAN</b>	137 - 142

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

**8. EXCLUSION OF PRESS & PUBLIC**

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

**EXEMPT SECTION (Pink Papers)**

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please post them to the Democratic Service Office, 1st Floor, Mulberry Place London E14 3BG or hold onto the papers until such time you can return to the Town Hall and dispose of the papers in the confidential bins.

<b>8 .1</b>	<b>Independent Review of Accounts Closure 2018/19</b>	143 - 176
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**Next Meeting of the Committee:**

Thursday, 28 January 2021 at 6.30 p.m. to be held in the Online 'Virtual' Meeting - <https://towerhamlets.public-i.tv/core/portal/home>

# Agenda Item 1

## **DECLARATIONS OF INTERESTS AT MEETINGS– NOTE FROM THE MONITORING OFFICER**

This note is for guidance only. For further details please consult the Code of Conduct for Members at Part C, Section 31 of the Council's Constitution

### **(i) Disclosable Pecuniary Interests (DPI)**

You have a DPI in any item of business on the agenda where it relates to the categories listed in **Appendix A** to this guidance. Please note that a DPI includes: (i) Your own relevant interests; (ii) Those of your spouse or civil partner; (iii) A person with whom the Member is living as husband/wife/civil partners. Other individuals, e.g. Children, siblings and flatmates do not need to be considered. Failure to disclose or register a DPI (within 28 days) is a criminal offence.

Members with a DPI, (unless granted a dispensation) must not seek to improperly influence the decision, must declare the nature of the interest and leave the meeting room (including the public gallery) during the consideration and decision on the item – unless exercising their right to address the Committee.

**DPI Dispensations and Sensitive Interests.** In certain circumstances, Members may make a request to the Monitoring Officer for a dispensation or for an interest to be treated as sensitive.

### **(ii) Non - DPI Interests that the Council has decided should be registered – (Non - DPIs)**

You will have 'Non DPI Interest' in any item on the agenda, where it relates to (i) the offer of gifts or hospitality, (with an estimated value of at least £25) (ii) Council Appointments or nominations to bodies (iii) Membership of any body exercising a function of a public nature, a charitable purpose or aimed at influencing public opinion.

Members must declare the nature of the interest, but may stay in the meeting room and participate in the consideration of the matter and vote on it **unless:**

- A reasonable person would think that your interest is so significant that it would be likely to impair your judgement of the public interest. **If so, you must withdraw and take no part in the consideration or discussion of the matter.**

### **(iii) Declarations of Interests not included in the Register of Members' Interest.**

Occasions may arise where a matter under consideration would, or would be likely to, **affect the wellbeing of you, your family, or close associate(s) more than it would anyone else living in the local area** but which is not required to be included in the Register of Members' Interests. In such matters, Members must consider the information set out in paragraph (ii) above regarding Non DPI - interests and apply the test, set out in this paragraph.

### **Guidance on Predetermination and Bias**

Member's attention is drawn to the guidance on predetermination and bias, particularly the need to consider the merits of the case with an open mind, as set out in the Planning and Licensing Codes of Conduct, (Part C, Section 34 and 35 of the Constitution). For further advice on the possibility of bias or predetermination, you are advised to seek advice prior to the meeting.

### **Section 106 of the Local Government Finance Act, 1992 - Declarations which restrict Members in Council Tax arrears, for at least a two months from voting**

In such circumstances the member may not vote on any reports and motions with respect to the matter.

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

## LONDON BOROUGH OF TOWER HAMLETS

### MINUTES OF THE AUDIT COMMITTEE

HELD AT 5.30 P.M. ON TUESDAY, 21 JULY 2020

ONLINE 'VIRTUAL' MEETING - [HTTPS://TOWERHAMLETS.PUBLIC-I.TV/CORE/PORTAL/HOME](https://towerhamlets.public-i.tv/core/portal/home)

#### Members Present:

Councillor Val Whitehead (Chair)

Councillor Abdal Ullah

Councillor Ehtasham Haque

Councillor David Edgar

Councillor Marc Francis

Councillor Kyrsten Perry

Councillor Andrew Wood

Mayoral Advisor for Public Realm

#### Apologies:

Councillor Ayas Miah

#### Others Present:

Mayor John Biggs

Jonathan Gooding

James Ross

– (Executive Mayor)

– Deloitte

– Deloitte

#### Officers Present:

Kevin Bartle

Asmat Hussain

Bharat Mehta

Mark Norman

Tony Qayum

Paul Rock

Will Tuckley

Sid Exley

Farhana Zia

Matthew Mannion

– Interim Divisional Director of Finance, Procurement and Audit

– (Corporate Director, Governance and Monitoring Officer)

– (Audit Manager)

– (Legal Adviser & Deputy Monitoring Officer)

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

– (Head of Internal Audit, Anti-Fraud and Risk)

– (Chief Executive)

– Insurance Manager

– (Democratic Services Officer, Committees, Governance)

– (Head of Democratic Services, Governance)

#### 1. APOLOGIES FOR ABSENCE

Apologies for Absence were received from Councillor Ayas Miah and Mr Neville Murton, Corporate Director for Resources.

**2. DECLARATIONS OF INTEREST**

No declarations of disclosable pecuniary interest were made by the members.

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

The minutes from the 13<sup>th</sup> May 2020 meeting were agreed and approved to be an accurate record of the meeting.

Matters Arising**Purchase Cards**

It was noted an update on Purchase Cards had been circulated to the membership of the Committee.

**4. DELOITTE ITEMS FOR CONSIDERATION****4.1 Pension Fund 2019/20 Accounts Audit Plan**

Mr Jonathan Gooding, external auditor from Deloitte's presented the Pension Fund 2019/20 Accounts Audit Plan. He informed members the Plan had been discussed at the Pensions Committee on the 18<sup>th</sup> June and was coming to the Audit Committee for information.

Mr Gooding said the plan set out the scope of the work to be undertaken and identified the significant risks, which were consistent with regulations. He said materiality was set at £15M with a presumed risk in relation to the management override of controls and therefore journal entries would be tested to see if they were indicative of fraud.

The timetable to deliver the Pension Fund Audit Plan had shifted since the Pensions Committee had received the report because of capacity issues within the Council's Pensions Team and the impact of Covid-19. Mr Gooding said the revised timetable meant the Audit Plan would report back to the Committee in November 2020.

In response to questions from Members the following was noted:

- Councillor Perry, Chair of the Pensions Committee stated she had read the document and accepted the change in timetable was due to the impact of Covid19 and capacity issues within the Pensions Team.
- Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit added the proposed restructure of the Pensions Team, which had been discussed at the Pensions Committee meeting of 18<sup>th</sup> June, would assist in resolving the capacity issues within the team and would enable the resolution of queries raised by the external Auditors.
- In reference to page 25 of the agenda and in response to why an interim Pensions and Investments Manager was being recruited and not a permanent one, Mr Bartle said it was difficult to recruit staff who had specialist Pensions knowledge. He said the Officer covering on an

interim basis had accepted an extension to the contract for a further twelve months and would be responsible for seeing through the proposed restructure of the team as well as the recruitment and retention of staff to the senior positions within the new structure.

The Chair thanked Mr Gooding for his contribution to the meeting.

The Audit Committee **RESOLVED** to:

1. Note the Audit Planning report from Deloitte that related to the Tower Hamlets Pension Fund accounts as set out in Appendix A.

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

### **5.1 2018-19 Annual Governance Statement**

Mr Paul Rock, Head of Internal Audit, Fraud and Risk stated the Annual Governance Statement had been revised several times and comments made by members of the Audit Committee had been taken into account. These were reflected in the revised Annual Governance Statement of 2018-19, which was being presented again for approval by the Audit Committee, following the May 2020 meeting.

Mr Rock said specific comments made in relation to Pensions administration, were cited under principal A, on page 5 and 24 of the statement; the resignation of a former councillor was on page 5 and the planning peer challenge was cited on page 18, under other inspections. Mr Rock explained there was a difference in the opinion given in the 2018/19 statement and his opinion for 2019/20 as the 2018/19 opinion was based on a non-scaled opinion and concluded the governance arrangements in place were adequate. Mr Rock said the 2019/20 opinion would be based on the body of work internal audit had undertaken and what he considered to be relevant, using the scaled opinion as set out in table 1, page 76 of the next report.

The Committee then heard from the Mayor John Biggs who said it was apparent the Annual Governance Statement had been to the Audit Committee on several occasions. He said following comments in July 2019, members of the Audit Committee as well as the Overview and Scrutiny Committee were given the opportunity to submit further comments. The Mayor said no comments were made until the Statement was presented again in May 2020 to the Audit Committee. He said the comments made by Councillor Wood had been added to the revised Statement and these were being presented to the Committee at this meeting.

Mayor Biggs said the ownership of the Annual Governance Statement laid with him and the Chief Executive and he believed the Statement fairly recorded the current position of the Council and therefore he did not feel there were any major omissions in the Statement. He said that upon election, he had made a pledge to root out maladministration and bad practice of the previous administration and considerable progress had been made to improve

the governance of the Council. The Mayor said he was disappointed the Statement had not been approved in May but hoped the revisions made were satisfactory to members of the Audit Committee, to allow for the approval of the Statement.

Mr Will Tuckley, Chief Executive of London Borough of Tower Hamlets said he had given a substantial presentation at the last meeting and believed the statement gave a balanced view of the progress made since 2017/18. He said the Council had faced many challenges such as Children Services, Pensions Administration and Adult Social Care payments however good progress had been made to remedy these areas. He said more work was required to improve and strengthen governance in the Council, but this was work in progress. Overall, he believed the assessment made in the Annual Governance Statement was accurate.

In response to questions and comments from Members the following was noted:

- Ms Charlotte Webster commented that whilst the toing and froing of the Statement may not be ideal, it showed a degree of maturity in that Members have had the opportunity to comment upon it. She said the everyone had to come along with the process and accept the assessment made in the Statement, with the acknowledgment further work was required to strengthen the governance processes of the Council.
- Councillor Wood stated he was pleased his comments had been incorporated into the revised Statement. However, he felt the Council sometimes painted a slightly better position about governance than was the case. He said it was important for the Council to be more critical of itself but welcomed the changes made in the Annual Governance Statement.
- Councillor Francis said he also welcomed the revisions to the Statement but believed there to be a growing divergence between the spoken words, the written reports and the reality. Councillor Francis gave an example of where he felt information given to members was not specific and lacked detail. He said he had not provided comments in relation to the Annual Governance Statement other than in meetings because he felt there wasn't a willingness for Officers to be straightforward with Members and the public. He said he did not support the Statement put forward and would abstain from voting for it.
- Councillor Haque said he welcomed the changes made but was frustrated the Mayor had questioned the professionalism of the Members of the Committee. He said this compromised the independence of the Audit Committee, whose role was to make comments on reports presented to them. Councillor Haque continued saying the function of the Overview and Scrutiny Committee was not in line with decision-making especially as the number of call-ins had decreased.

- Councillor Edgar said he was a new member of the Committee and whilst he had not been on the journey and was not familiar with all the changes made to the report, on balance he felt the report clearly stated the position of the Council with regard to governance and the adequate rating appeared to be the correct assessment.
- Councillor Ullah concurred with Councillor Francis and Councillor Haque that the number of call-ins had diminished since 2018/19. He said the reasons for this would be for the current Chair of Overview and Scrutiny to address. He said the Chief Executive and the Mayor ought to welcome the opportunity to be questioned especially as there was a need for openness and transparency.

The Audit Committee **MOVED** to:

Take a vote in relation to the Annual Governance Statement 2018/19 report with four members in support of the report and three members abstaining.

Therefore, the report was carried and it was **RESOLVED**

1. That the 2018/19 Annual Governance Statement had been reviewed and agreed.

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

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented his Internal Audit Annual Opinion report. He said the report was in accordance with the requirements of the Public Sector Internal Audit Standards and was based on the evidence of work of the Internal Audit function as well as other matters which he considered relevant. Mr Rock said the opinion was based using the new scaled opinion range as per page 76 of the agenda, with 'no assurance' being the lower score and 'substantial' being the higher scoring. Mr Rock said he had concluded the Council had achieved 'Limited' assurance due to the significant issues relating to the closure of the Council's 2018/19 Accounts and the issues associated with the accounting procedures that had emerged throughout 2019/20. Mr Rock continued stating the breaches of law in relation to Pensions Administration was another factor which led him to conclude the authority does not have adequate systems of governance, risk management and internal control.

Mr Rock explained his reasons for the opinion given and outlined the areas the authority would need to improve, over the coming year, in particular the processes and procedures relating to the production of the Annual Accounts and the remedial action to be taken for Pensions Administration.

In response to questions from Members the following was noted:

- Ms Charlotte Webster, Independent Person commented the implementation of agreed management actions was onerous for the

Internal Audit Team and questioned how this was possible given the limited resources within the team. She said a clear escalation process was required, so actions and owners of the actions resolved issues quickly. She suggested these be escalated to the Mayor and Chief Executive if necessary. Mr Rock agreed a robust escalation process was required and said the value of an internal audit assessment diminishes over time, if not acted upon in a timely fashion.

- The Chair asked what the Audit Committee could do to assist in escalating the management responses to outstanding Internal Audit reports. Mr Rock said he would welcome the Chair to enquire about long outstanding management responses by writing to the relevant Corporate Directors and asking them to respond to her personally.
- Councillor Edgar suggested lead Cabinet Members be made aware of outstanding internal audit reports, so to ensure the momentum was not lost in obtaining a response. Mr Rock said he was hesitant of sharing draft reports too early, as he wanted to give Officers time to respond and agree actions. Councillor Edgar acknowledged this was essential however suggested the timeline for a response be shared with the lead Cabinet Member, so they were aware when a response is due for outstanding reports.
  - **ACTION:** Lead Cabinet Members to be informed of the timeline for outstanding management responses to Internal Audit reports.
- The Mayor John Biggs welcomed the report and the opinion given by Mr Rock. He said whilst progress had been made to improve governance, the financial controls and responses to audit reports, this was an area that required further attention. He said senior managers needed to take ownership of the actions and said outstanding reports and actions should be brought to the attention of Cabinet Members. The Mayor said he was minded to attend future meetings of the Audit Committee, so to ensure there was a reference point and/or a Senior Members of the Corporate Leadership Team to be present.
- The Mayor also noted the concerns raised regarding the recruitment and retention of staff within the Internal Audit Team and hoped vacancies could be filled soon.

The Audit Committee **RESOLVED** to:

1. Note the content and opinion of the Head of Internal Audit as outlined within the Head of Internal Audit Annual Report which includes a summary of the work undertaken during 2019/20.

### 5.3 Internal Audit and Anti-Fraud Progress Report

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Internal Audit and Anti-Fraud progress report. Mr Rock said the report provided an update on progress against the delivery of the 2019/20 Annual Internal Audit Plan and highlighted any significant issues since the last report to the Audit Committee in May 2020.

Mr Rock referred members to paragraph 3.2 and the number of audits completed for 2019/20. He informed members the CCTV audit was cancelled due to an external review being undertaken. Mr Rock stated the Divisional Directors for the three 'limited' assurance reports were present for the meeting as outlined in paragraph 3.5 of the report. He referred members to Table 4, at paragraph 3.7 which set out the draft internal audit reports which were awaiting responses and said this had been discussed earlier. However, he wanted to highlight that despite the team's collective best efforts, there were nine reports outstanding.

Mr Rock continued saying he was particularly pleased with the progress made by the Anti-Fraud team, especially the recovery of social housing properties and the financial impact they had achieved plus the raising of awareness within the Council and public alike. Mr Rock also drew the attention of Members to Appendix C and the collaborative work between the Borough and Barts Health Trust.

The Committee then heard from the Divisional Directors present:

### **IT Business Continuity and Resilience**

Mr Adrian Gorst, Divisional Director for IT, stated the IT Directorate had witnessed a considerable amount of change, with IT being moved from a traditional hosting site to a cloud-based and vendor hosted site. He said the IT department were also preparing for the end of the Agilisys contract for March 2021, and this audit had been very timely. He said it was helpful to know the risks the service carried and what needed to be done to design the new service and eliminate the risks. Mr Gorst referred to the recommendations made within the report and said risk register had been updated to reflect the current control environment. He said the processes and procedures were being updated which he hoped to achieve by the end of July 2020. In reference to the other recommendations, Mr Gorst said these were in hand. He was they were looking to recruit to the Head of IT post, but in the meantime a project officer had been assigned to progress the recommendations.

In response to questions from members the following was noted:

- In reference to the first bullet point, page 100, Mr Gorst was asked what had been done to update the Council's IT disaster recovery plan, considering the different ways of working due to the Pandemic. Mr Gorst responded saying IT was forever evolving and a lot of the applications provided were through a contractual arrangement. He said the vendors were obligated under the contract to ensure applications were available. For those application which are part of the Microsoft suite, weekly meetings are held with Microsoft to make sure best practice is applied. Furthermore, the roll out Office 365 is 50% complete so the risk of Citrix VDI has been reduced, although this remains a risk.

### **Financial Delegations**

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit addressed the Committee and stated he believed that the revised financial delegations process had been a very positive piece of work. He said when he joined the Council to help improve the financial controls, an appropriate financial delegation system did not exist. This was put in place and then audited by Internal Audit. Mr Bartle said the direction of travel was very positive and looking at the progress he would argue substantial improvement has been made. Mr Bartle said there were some areas where the letter of the law had not been followed, for example where the Senior Accountant had approved delegation rather than the Finance Manager. However, it was still approved and was being looked at by a third party.

Mr Rock said he respected Mr Bartle's view and whilst they were not entirely in agreement, there is an opportunity to introduce 'prospects for improvement' ratings for future audits which will give a clearer recognition over business areas that are improving.

In response to questions from Members the following was noted:

- Ms Charlotte Webster, Independent Person cautioned against the example used and said technically the inappropriate delegation goes against the spirit of financial delegation system, in that a named person must have authority to approve the delegation. Mr Bartle responded saying he acknowledged the point Ms Webster was making but the example he had given was to assist the Committee in contextualising the type of breach being talked about. It was clear Mr Bartle was not condoning the action per se.

#### **Financial Safeguarding for Service Users with Learning Disability**

Ms Claudia Brown, Division Director for Adult Social Care said she welcomed the Internal Audit Report because as a new Director it provided useful insight into how client's finances with a learning disability were being managed. Ms Brown said the recommendations within the report had been developed into an action plan, which she hoped to complete by October 2020. She said Officers were being asked to question carers and/or relatives about how finances for the client were being managed as part of visits made and/or phone calls made. Ms Brown said the client database - Mosaic was being updated but she hoped the forms and the approach would be consistent across the service. She said Officers would be expected to deliver the goals and this would be part of the Annual Review conducted with clients. Ms Brown said staff would be trained and briefed on how to have those discussions with providers.

In response to questions from Members the following was noted.

- Ms Brown was asked how the service assesses the Client's best interests are being served by the carer and/or relative who is responsible for the personal budget. Ms Brown said they could identify if there was an issue when for example, client contributions cease to

the care home and or if money is not being spent on personal items for the individual. She said this is when the service would intervene but for the most part it was based on trust that the relative would have the best interest of the client in mind, especially as they are usually subject to a Court of Protection Order with an Appointeeship in place to manage the money.

The Chair thanked the Divisional Directors for their contributions and said she hoped the implementation of recommendations within the Internal Audit reports would lead to improvements within their areas of responsibility.

Following on from the presentations, general questions regarding the report were asked.

- Councillor Francis referred to the page 110 and asked how many Members had attended the training sessions covering the Constitution changes. Ms Asmat Hussain, Corporate Director for Governance said information relating to attendance on Constitution changes could be provided to Cllr Francis, but attendance statistics were reported to the Standards Advisory Committee. She said in the current circumstances, alternative delivery methods were also being looked at to increase member and officer participation.
- **ACTION:** Mr Matthew Mannion, Head of Democratic Services to confirm the number of Member attendees on the constitution changes training sessions.
- Councillor Francis also enquired who had given advice in relation to the Key Decisions threshold and what assurances had been provided. He requested some feedback be provided on this issue. Mr Rock said he would provide Councillor Francis with this information in due course.
- **ACTION:** Mr Rock, Head of Internal Audit, Fraud and Risk to provide Councillor Francis with the information sought, regarding the advice provided for the threshold limit for Key Decisions.
- Councillor Wood commended the work of the Anti-Fraud Team and said the work of the Team should be publicised to deter others. For example, the twenty 'Right to Buy' applications that were investigated. Mr Rock responded saying the best deterrent is advertising the work of the team as this adds real value. He said he would look at advertising the good news stories subject to financial constraints.
- Councillor Perry enquired if an update had been provided regarding 'Client Monitoring of Fire Safety in Residential Dwellings.' Mr Rock confirmed Ms Karen Swift, Divisional Director for Housing had attended the Audit Committee meeting of 30<sup>th</sup> January 2020 and had updated members.
- **ACTION:** Members requested Mr Rock to obtain a further update in relation to Fire Safety in residential dwellings and asked this be circulated to them via email.

The Audit Committee **RESOVLED** to:

1. Note the contents of the report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.
2. Note the Protocol for Collaborative working with Barts Health NHS Trust.

#### **5.4 Internal Audit and Anti-Fraud Annual Plan**

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Internal Audit and Anti-Fraud Annual Plan. He said the draft plan had been updated to include emerging risks due to the pandemic. Mr Rock said he had been working with Divisional Directors to update the plan to identify the emerging risks and changes in the strategic focus and day to day operations of the Council. He said the Internal Audit and Anti-Fraud plan was a living document and whilst the plan had been reduced overall due to lost time and resourcing issues, if new risks and priorities emerged these would be added to the plan and the Committee would be informed of any changes.

Members had no questions for Mr Rock on this item.

The Audit Committee **RESOLVED** to:

1. Approve the draft Internal Audit and Anti-Fraud plan for 2020/21.

#### **5.5 Risk Management Strategy and Update**

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Risk Management Strategy update. Mr Rock said BDO, an external partner undertook an audit of risk management function, for him to maintain organisational independence. He said whilst a 'substantial' opinion was given to the framework adopted, 'limited' assurance had been given to its implementation. Mr Rock said he had been working to update the Risk Management Strategy and plan and was looking at ways to move this forward for the organisation. He said the recruitment of a Risk Manager had been unsuccessful and as such he was talking to neighbouring boroughs about sharing resources for risk management. He said the report also included the five-year risk strategy, which had been updated to reflect the risk appetite.

In response to questions from Members the following was noted:

- Mr Rock informed Members the recruitment of a Risk Manager had proven to be difficult because the initial advert was placed just before the pandemic and did not produce the response he was seeking. He said that with the help of the Communication's Team, the advert was rewritten which resulted in a better response. However, of the applicant's interviewed, Mr Rock said he did not feel they had all the qualities to move Risk Management in the direction he wanted. Mr Rock said he was open to exploring alternative delivery methods and would look to rerun the recruitment process once the pandemic situation had improved.

- In response to how the Corporate Leadership Team would improve its review of the Corporate Risk Register, Mr Will Tuckley, Chief Executive responded saying that the management team had through the pandemic acted quickly and concisely responding to the changing risks. He said it was vital to keep the Register up to date and take mitigating actions against moving events. He said the report described how the system needed to improve and it was not just about management taking account of risks; this was what they do all the time, but to have a system in place which was pertinent and adaptable to mitigate against the risk. Mr Tuckley said it was necessary to ensure risk assessment and mitigation was part of everyday business and embedded within the organisation. Mr Rock concurred the experience of the pandemic had tested the flexibility of the risk management process and said the Gold and Silver Command responses were a stark contrast to his experience when he initially joined the Council.
- In response to if the current plan was realistic and deliverable, Mr Rock acknowledged it would need revision again in light of the limited resources he had but said the employment of agency/temporary staff would incur significant cost, which is why he was looking to alternative ways to manage this, such as working with neighbouring boroughs. He agreed it was crucial not to lose the momentum that the pandemic had highlighted to maintain the importance of risk management.

The Audit Committee **RESOLVED** to:

1. Note the outcome of the audit of Risk Management;
2. Approve the Risk Management Strategy for 2020 to 2025; and
3. Approve the Annual Plan for Risk Management.

## 5.6 Annual Insurance Report

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Annual Insurance Report. Mr Rock said this was the first time the report was being presented to the Audit Committee. He said the overall assessment of the Service by external auditors showed the team was performing well. Mr Rock said it was important for the Audit Committee to have oversight of the work done by this team and as such he would be reporting to the Committee on an annual basis. Mr Rock said he was open to suggestions as to the information Members would like to see in the report.

In response to questions from Members the following was noted:

- An example of an insurance claim by a resident was cited by Councillor Wood. He said it would be helpful to see the circumstances in which claims are rejected and asked if this could be included in future reports. Mr Rock responded saying he was hesitant in stating reasons for the rejection of claims as it could be open to fraud but could provide such information outside of the meeting. Councillor Wood concurred any

such information would be via pink papers rather than in the public forum.

The Audit Committee **RESOLVED** to:

1. Note the contents of the report.

## **5.7 Code of Corporate Governance - Annual Review**

Mr Matthew Mannion, Head of Democratic Services presented the Code for Corporate Governance. He said the Code was initially presented to the Committee in 2018, forming a part of the appendices of the Annual Governance Statement. However, this year in order to give the Code of Corporate Governance more visibility, the document was being presented separately. Mr Mannion said it would be added to the transparency pages of the Council Website. Mr Mannion said the design of the code matched the model required by CIPFA best practice and he welcomed comments on how much information should be included in the document.

In response to questions from Members the following was noted:

- An example was cited by Councillor Francis in relation to Core Principal B, regarding openness and stakeholder engagement. He said the example highlighted the disparity between what was initially stated in a report to Cabinet and the result in how decisions are taken. However, he supported the document and the core principals within the document.

The Audit Committee **RESOLVED** to:

1. Review and comment on the revised Code of Corporate Governance;
2. Endorse the Code and agree that it be published on the Council's Website to increase visibility of the Code.;
3. To delegate to the Head of Democratic Services, following consultation with the Chair of the Audit Committee and the Head of Internal Audit, Fraud and Risk, the authority to make minor changes to the Code as required before final publication on the Council's website.

## **5.8 Whistleblowing Annual Report**

Ms Asmat Hussain, Corporate Director for Governance introduced the annual report to the Committee stating it outlined the work undertaken on Whistleblowing. Ms Hussain said the Internal Audit function had conducted a review of whistleblowing policies and procedures and had made recommendations on how the process could be improved. Ms Hussain asked Members to be mindful of the nature of the report and said specific cases could not be discussed in detail. She said a pink paper session could be held if this was what was required.

Mr Mark Norman, Legal Advisor and Deputy Monitoring Officer addressed the Committee stating the recommendations within the audit report had been implemented and the process of reporting, investigating and providing feedback had been improved. Mr Norman referred Members to Appendix A, section 1 which outlined the concerns received for the initial period as well as the table at section 2 which highlighted cases under investigation.

In response to questions from Members the following was noted:

- Mr Norman confirmed the Committee would receive an update in relation to the outstanding concerns in section 2 of appendix A, in the next annual report. He said specific details would only be shared in private session if members requested this.
- Mr Norman explained 'anonymous' concerns as well as 'non anonymous' concerns had to fulfil a criterion that identified if the issue was serious, credible and if the allegations were true in that they could be verified by another source. Mr Norman said anonymous whistleblowers sometimes provided a contact email, so the concern could be acknowledged however the outcomes are not shared with them.
- With respect to staff resigning before the conclusion of an investigation, Mr Norman said the resignation would not be accepted and if the breach was of a criminal nature, the staff member would be prosecuted through the legal justice system.

The Audit Committee **RESOVLED** to:

1. Note the contents of the report.

## 5.9 Audit Committee Annual Report 2019/20

The Chair, Councillor Whitehead presented the Audit Committee Annual Report for 2019/20. She said the report reflected on the achievement of the Committee and would be presented to Council at its next meeting.

There were no questions from Members.

The Audit Committee **RESOLVED** to:

1. Note and approve the Chair's Annual Report, which is to be presented to Council.

## 6. AUDIT COMMITTEE WORK PLAN

The Audit Committee noted the work plan for the Committee for 2020/21.

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit requested the Annual Financial Accounts for 2018/19 and 2019/20 be added to the 12<sup>th</sup> November meeting along with the Deloitte report.

## 7. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no urgent business to be discussed.

The meeting ended at 7.50 p.m.

Chair, Councillor Val Whitehead  
Audit Committee



**London Borough of Tower Hamlets**

Report to the Audit Committee on the audit for the year ended 31 March 2020

Issued on 2 November 2020 for the meeting on 12 November 2020

# Original timeline for the audit and overview of its current status

## The key messages in this report

We have pleasure in presenting this update report to the audit committee of Tower Hamlets Council (the Council) on the progress of our audits for the years ended 31 March 2019 and 31 March 2020.

<b>Status of the accounts</b>	<p>A revised draft of the 2018/19 statement of accounts was received by this committee at its meeting on 23 May 2020. Officers have informed us of further changes they consider are needed to this version, some of which have not been finalised.</p> <p>The draft 2019/20 accounts were authorised for issue and published on the Council’s website on 28 August 2020, in advance of the deadline for this of 31 August 2020. Officers informed us of an unresolved issue in relation to the accounting for major works within that draft which is likely to require adjustment.</p> <p>The Accounts and Audit Regulations 2015 require the Annual Governance Statement to be published alongside this version of the accounts. This was not done.</p>
<b>Original expectations on timeline for the 2019 and 2020 audits</b>	<p>In our audit planning report, we said that:</p> <ul style="list-style-type: none"><li>• Our work on the 2018/19 accounts would need to be carried out in the same or similar period to our work on the 2019/20 accounts.</li><li>• It was not practicable for both audits to be completed within the normal period allowed for completion of the current year statement of accounts audit.</li><li>• We anticipated that a period of four months would be required to complete the audits for both years.</li><li>• This timeframe was based on the assumptions that: (a) supporting workings for changes made to the original version of the statement of accounts, together with information requested during our on site visit in June to August 2019 would be submitted for audit by 29 May 2020; (b) good quality information was provided to support the audit for both years.</li><li>• If activity was delayed into the autumn as a result of the pandemic, this may create scheduling problems which may result in a longer timeframe for the audit process.</li></ul>
<b>Current status of the audit</b>	<p>The quality of information received has, in general, been significantly better than last year and, in the latter part of the visit, the Council has improved its grip over the process for responding to audit requests.</p> <p>However, the delay in closing the 2019/20 accounts, and the pace at which information has subsequently been provided, mean that our audit of the statement of accounts for the year ended 31 March 2020 is ongoing and will not be completed prior to the deadline of 30 November 2020 set for the publication of the statement of accounts.</p> <p>The provision of information needed to complete our audit of the statement of accounts for the year ended 31 March 2019 has been slower and, as a result, the audit is similarly ongoing.</p> <p>Because of the volume and significance of work which remains outstanding at this stage, we are not yet in a position to report the findings from these audits. We have kept officers informed of potential misstatements in the 2020 accounts as issues have been identified.</p> <p>The issues encountered on both audits, and in particular the time it is taking to close-out the 2019 audit, are indicative of significant deficiencies in the Council’s financial reporting arrangements and the breadth and scale of the task which the Council has faced. We are aware that the Council has commissioned an investigation into the 2019 accounts closure process and the lessons learned. We did not have access to the investigator’s report in preparing this report but will carefully consider its conclusions and the Council’s response and the impact on our future reporting. They have also meant that we have needed to carry out additional procedures; and that we have not been able to work efficiently. Additional hours spent will be charged at using the rate card published by Public Sector Audit Appointments Limited.</p> <p>We have so far been able to arrange additional resource to continue our work, but will not be able to commit significant junior resource beyond November and through to April.</p>

# Observations on audit progress

## Timeline to date for the 2019 audit

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### **Actual timeline for the 2018/19 audit, to date**

In relation to the revised 2018/19 accounts audit:

- The draft accounts have been revised to restate comparative information for several items, including balance sheet information at 1 April 2017, as well as adjustments to the current year primary statements and note disclosures. The work we need to carry out on these revised accounts includes: (a) carrying out originally planned procedures which we were not able to complete in 2019 as we did not receive all of the information requested; (b) testing changes made between original and revised drafts; (c) re-assessing the scope of our original audit (including in relation to opening balances at 1 April 2018) in the light of findings from our originally planned procedures and officers' subsequent investigations and carrying out any necessary additional procedures in response.
- We re-commenced our work on 1 June 2020. At that time, the audit trail between the original and revised accounts was incomplete; and supporting information on adjustments and information requested during our previous visit had not been collated.
- As a result of officers' focus on closing the 2019/20 accounts, as well as additional workload due to the pandemic, only limited further information was provided during June to August 2020 in relation to the 2018/19 accounts. Because of this, we were not able to make significant progress on the 2018/19 audit prior to starting the 2019/20 audit.
- As more information has subsequently been provided to support the 2019/20 audit than the 2018/19 audit, the vast majority of our time has been spent on carrying out the 2019/20 audit.
- Outstanding information includes both various sample items as well as some individually significant areas including officers; evaluation of the impact of implementing IFRS 15 Revenue from contracts with customers from 1 April 2019; demonstrating the work done to identify and evaluate interests within the group boundary to support the officers' conclusion that group accounts are not required; support for assumed collection rates used in general bad debt provisions; information to commence our work on pay costs and income from fees and charges.
- As we have not been able to make significant progress on the 2018/19 audit, we have not yet been able to form a view on the appropriateness of restatements made in the 2018/19 draft statement of accounts. Under accounting rules, prior periods are retrospectively restated to correct for material prior period errors. Determining whether or not an item is a prior period error and forming a judgement as to whether it is material is the responsibility of officers preparing the financial statements. Officers should prepare appropriate documentation setting out their position, including the quantitative and qualitative factors they have considered in arriving at a conclusion as to whether they regard the items as material. We then undertake a review of officers' position and determine whether we agree or disagree with it. We request that this documentation is prepared.
- We draw to your attention that audit certificates have not yet been issued by your previous external auditor for years ended 31 March 2018 and 31 March 2017. We will not be able to issue an audit certificate for a later year until the certificates for these earlier years have been issued.

# Observations on audit progress

## Timeline to date for the 2020 audit

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**Actual timeline for the 2019/20 audit, to date**

In relation to the 2019/20 accounts audit:

- We have re-assessed the increased level of risk related to the audit in light of our ongoing 2018/19 audit and designed procedures to respond to that risk.
  - We did not receive a trial balance until 14 August 2020 and as a result were not able to start our work until that date.
  - Only a small number of the requested working papers were available at that date or into September.
  - Throughout the audit we have provided both an open audit request list and a list of proposed and potential audit adjustments, maintained in real time and accessible to both us and the Council and held weekly progress calls with the finance team to discuss issues arising in the previous week and priorities for the next week.
  - The quality of working papers submitted for audit has been significantly better than in 2019 and, from the latter part of September, officers have significantly improved their control over the process of responding to audit requests.
  - Nevertheless, the time needed for officers to provide quality assurance over work papers before submission for audit; the backlog in providing requested information created by the initial lack of preparedness for audit; as well as competing demands on the finance team, including supporting the development of savings programmes, means that the provision of many key schedules for audit has been very slow. As a result, it has not been possible for us to work efficiently and at the pace we would expect.
  - We have shared with officers a tracker on key blocks on progressing parts of the 2020 audit. At the time of writing this included provision of information needed to commence our work on pay costs; income from fees and charges; school bank accounts; capital grants in advance (including accounting for leaseholder contributions to major works); and various local taxation related balances in the Council's balance sheet and Comprehensive Income and Expenditure Statement, including provision for the cost of business rates appeals.
  - We have so far been able to arrange additional resource to continue our work, but will not be able to commit significant junior resource beyond November and through to April.
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# Observations on audit progress (continued)

## Key points reported to officers to date

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**Key points identified to date**

Because of the volume and significance of work which remains outstanding at this stage, we are not yet in a position to report the findings from these audits – but we have kept officers informed of potential misstatements in the 2019/20 accounts as these have been identified.

In turn, officers have informed us of potential misstatements identified from their own, ongoing processes.

Potential adjustments to closing usable resources so far communicated to officers are below £1m.

However, we have communicated several presentational and disclosure points which will need to be investigated and addressed, such as: the classification of cash flows within the cash flow statement, including the inappropriate gross up of cash flows from operating and investing cash flows by £1.4bn; and the classification of financial instruments between cash equivalents and investments and between current and non-current.

We regard some of the matters communicated as material to our opinion on the financial statements, such as the adjustment required to the cash flow statement described above.

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# Pension scheme audits

## The key messages on progress and status

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**Status of the 2018/19 audit**

Similar to the position on the Council audit, a number of requests were held over from our original fieldwork during 2019. Much of this information was not received until late September and early October 2020 and, again, a number of key pieces of information still remain outstanding.

Due to this delay we have been unable to progress the 2018/19 audit in the way that had been anticipated in our 2020 pension scheme planning report.

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**Status of the 2019/20 audit**

The 2019/20 draft pension scheme accounts and supporting working papers and documents were made available to us at the agreed time.

The quality of information received has, in general, been significantly better than last year and the speed and completeness of responses to audit queries has also markedly improved.

As information was available to support the 2020 pension scheme accounts, we have progressed this audit during October 2020. However, the ongoing delays in receiving the information requested to complete the 2018/19 accounts has ongoing impacts on our audit of the 2019/20 accounts and ultimately we are not able to conclude our audit on the 2019/20 accounts until we have issued our opinion on the 2018/19 audit. In particular, we cannot:

- Finalise of our risk assessment for 2020;
- Complete our audit of the opening balances at 1 April 2019; or
- Evaluate any relevant issues from the 2018/19 audit for their impact on the 2020 accounts.

On the assumption that information in relation to the 2019/20 audit continues to be provided at a similar pace, we anticipate that it will be possible to largely complete our fieldwork for the 2019/20 audit during November 2020. However, it will not be possible to carry out the delayed work on the 2019 audit (were information to be provided) at the same time. We will not therefore be in a position to issue our report on the pension scheme accounts by 30 November 2020 or our report within the separate pension scheme annual report by 1 December 2020.

Our resource position beyond the end of November is similar to that described above for the Council.

To date we have not identified any potential misstatements in the 2020 accounts.

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# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes observations on the progress of the audit.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Jonathan Gooding**  
for and on behalf of Deloitte LLP  
St Albans

2 November 2020

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Non-Executive Report of the:  <b>Audit Committee</b>  Thursday, 12 November 2020	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Neville Murton, Corporate Director of Resources (s151 officer)	<b>Classification:</b> Unrestricted
<b>Progress Update on 2018/19 and 2019/20 Accounts and Audit</b>	

<b>Originating Officer(s)</b>	Interim Chief Accountant, Tim Harlock
<b>Wards affected</b>	

### Executive Summary

This report summarises the progress that has been made on both the 2018/19 and 2019/20 audit of the accounts and identifies the current position.

This report should be read in conjunction with the progress report from Deloitte, the appointed external auditor.

### Recommendations:

The Audit Committee is recommended to:

1. Note the continuing progress on, and plans for completion of, the audits for both the 2018/19 and the 2019/20 Statements of Accounts.

### 1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial statements by the statutory deadline of 31<sup>st</sup> July each year. The Regulations were amended for the year 2019/20 and the statutory deadline for that year is 30<sup>th</sup> November 2020. Since that target deadline has been missed for 2018/19 and will be missed for 2019/20, it is incumbent upon the Council to have its financial statements signed off as soon as possible thereafter.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Council produces its Statement of Accounts in line with the relevant guidance and legislation.
- 2.2 This report has been produced to ensure the correct approval process is followed and Members are kept informed of the Council's financial position as a result no alternative action is considered appropriate.

## **3. DETAILS OF THE REPORT**

- 3.1 A revised set of 2018/19 accounts were presented to the Audit Committee at its meeting on 13<sup>th</sup> May 2020 and subsequently the 2019/20 accounts have been published in draft on 31<sup>st</sup> August 2020. The 2019/20 accounts are attached as Appendix 1. The Audit Committee were informed that both sets of audits were expected to be completed over the latter part of the year and the outcomes of those audits were to be reported to 12<sup>th</sup> November 2020 meeting.
- 3.2 Regrettably, it has not proved possible to complete both sets of audits, which are currently ongoing.
- 3.3 There are a number of information requests and queries outstanding on the 2018/19 accounts audit. Two issues have already been identified that require amendments to be made to the accounts; schools and pensions (and these amendments have been incorporated in the 2019/20 accounts in the comparative figures for the previous year).
- 3.4 For schools, in the process of correcting errors made in previous years, it eventually became apparent that the extent of accounting error was more widespread than had been initially recognised. Much of the substance of these errors stems from the 2017/18 financial year, when it appears that the schools' bank reconciliations were not performed to a satisfactory standard.
- 3.5 In summary, over the two years 2017/18 and 2018/19, the level of error was identified as £11.6m falling to the General Fund. Unfortunately, this is a real loss of resource that has had to be recognised by the Council. This adjustment has already been incorporated within reserves planning and projections as presented to Cabinet in budget monitoring reports.
- 3.6 The net pension liability has also been adjusted following a revision to the actuary's IAS19 reports. This resulted in the net pension liability reducing by £11.4m, with the offsetting adjustment in the pensions' reserve. Although not an immediate increase in resource available to the authority, this is a favourable movement over the lifetime of the liability.
- 3.7 It should be noted that there will almost certainly be further amendments required to the 2018/19 accounts, including possible prior year amendments. There are still a number of queries and information requests outstanding,

despite the accounts being a significant focus of work for the finance function and the wider Council.

- 3.8 At the time of compiling the revised 2018/19 accounts for Committee in May, the focus had been on addressing the problems that had arisen at that time. This leaves the possibility that further issues are yet to arise; indeed the 2019/20 audit, by means of presenting and scrutinising a further year, is starting to show where further work might be required on 2018/19 notes, mainly of a presentational nature.
- 3.9 An additional resource, in the form of an interim accountant with significant closure of accounts experience, has been secured to concentrate solely on the 2018/19 accounts and audit. This officer will be leading the work to respond to the outstanding queries and then restate the accounts.
- 3.10 The 2019/20 accounts audit is still ongoing and there are a number of outstanding information requests and queries with more expected to come. There is a possibility that there will be a further significant amendment to be made that relates to the schools accounting issues identified in paragraph 3.4: officers are working to obtain a clearer view (but if further amendment is required it will be a much smaller figure than the previous £11.6m actioned through the accounts).
- 3.11 There is some uncertainty as to whether the associated entries of the Collection Fund have all been completed correctly. External expertise has been appointed to arrive at a definitive view. The external resource is currently working on the Collection Fund, with a target date of a definitive view by mid-November.
- 3.12 Additionally, the provision put aside for business rates appeals is undergoing detailed scrutiny and is the subject of discussion with Deloitte.
- 3.13 There is also an error relating to recognition of leaseholders' contributions that has been identified in the 2019/20 accounts, although in substance it most likely stems from adjustments made to the 2018/19 accounts and previous years. In summary, it appears that too much income has been recognised in previous years, leading to not enough income being recognised in 2019/20. It is not thought at this stage that this will lead to overall loss of resource for the Council, merely a reallocation of that income over the last 3-4 years.
- 3.14 There are a number of less significant issues where potentially there could be some amendments required. As yet, these appear to be mostly of a presentational nature. However, these could lead to re-presentation of the core statements too, which therefore becomes a not insignificant task.
- 3.15 For the 2018/19 Pension Fund Accounts, officers have submitted responses to all Deloitte queries but two and are awaiting Deloitte's responses. There may be further queries that arise during the rest of the audit; Deloitte's current audit focus appears to be 19/20.

- 3.16 For 2019/20 Accounts, all but four queries have been answered and officers are awaiting Deloitte's response to the majority of these queries, while Deloitte are still working through them. Officers plan to respond to the remaining four queries over the next week.
- 3.17 In conclusion on the main accounts, although the quality has improved since the previous year, a realistic appraisal is that there is still much work to do in order to improve the underlying processes that support closedown, and thus attain greater assurance, better quality working papers and fewer errors.
- 3.18 It is a matter of regret that the audit process has taken longer than planned. However, the Committee can be assured that this matter has been reported to the Corporate Leadership Team (CLT) and more frequently to the Statutory Officers Meeting (SOM), and has been recognised as a Council wide priority. The lessons learned from 2018/19 are being recognised, and the process of improvement is ongoing.
- 3.19 There are a number of reasons why the Council is in the position that it is regarding its accounts and an independent review has consequently been commissioned and has now reported on its findings. This review report is also on the agenda of this meeting and it is therefore appropriate for members of the committee to refer to that report for the explanations of the shortcomings but also to the improvements to resources and processes that have been made thus far.
- 3.20 It is difficult to be categorical as to when the audits for both years will be complete, but the plan is for the Council to produce new drafts of the accounts in time for the January 2021 meeting of this committee.

#### **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no direct equalities implications within this report.

#### **5. OTHER STATUTORY IMPLICATIONS**

##### **5.1 VALUE FOR MONEY CONCLUSION**

Deloitte will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of its audit report on the Statement of Accounts.

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

- 6.1 As this report is written by the Chief Finance Officer, his comments are included throughout the report.

6.2 The Statement of Accounts 2018/19 is being restated so as to take account of the significant errors found to date.

## **7. COMMENTS OF LEGAL SERVICES**

7.1 Regulation 10 of the Accounts and Audit Regulations 2015 requires a local authority to publish their statement of accounts not later than 31 July of the financial year immediately following the end of the financial year to which the statement relates, or, for the financial year starting in 2019, not later than 30 November. These dates have not been or will not be kept, as noted in the report.

7.2 Regulation 3 of the Accounts and Audit Regulations 2015 requires a local authority to have a sound system of internal control which ensures that the financial and operational management of the authority is effective

7.3 Save as mentioned above, the matters set out in this report comply with the above legislation

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

### **Linked Report**

- NONE

### **Appendices**

- NONE

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

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

- NONE

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

N/A

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Non-Executive Report of the:  <b>Audit Committee</b>  Thursday, 12 November 2020	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Corporate Director, Governance and Monitoring Officer	<b>Classification:</b> Open (Unrestricted)
<b>Audit Committee Terms of Reference, Membership, Quorum and Dates of Meetings</b>	

<b>Originating Officer(s)</b>	Farhana Zia
<b>Wards affected</b>	(All Wards);

### Executive Summary

This report sets out the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year of 2020/21 for the information of members of the Audit Committee.

### Recommendations:

The Audit Committee is recommended to:

1. Note its Terms of Reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1, 2 and 3 to this report.
2. Determine the preferred time at which the scheduled meetings will start

### 1. REASONS FOR THE DECISIONS

- 1.1 The report is brought annually to assist new and returning Members by informing them of the framework of the Committee set out in the Council's Constitution.

### 2. ALTERNATIVE OPTIONS

- 2.1 The report asks Members solely to confirm its constitutional arrangements and therefore they are not required to consider any alternative options.

### **3. DETAILS OF THE REPORT**

- 3.1 Each year, following the establishment of the Committee at the Council's Annual Meeting, it is customary that the newly established Committee considers its procedural arrangements.

#### **Audit Committee Arrangements**

- 3.2 At the Annual General Meeting of the full Council held on 30<sup>th</sup> September 2020, the Authority approved proportionality, establishment of the Committees and Panels of the Council and appointment of Members thereto. The membership of Audit Committee for the municipal year 2020/21 was among the committees' memberships approved and these details are set out at Appendix 2 to the report.
- 3.3 Having been established by Council, it is customary that the committee (at its first meeting of the municipal year) note its terms of reference, and quorum. These are set out in Appendix 1 to the report.
- 3.4 The Committee's meetings for the remainder of the year, as agreed at the same meeting of the Council, are also provided at Appendix 3.
- 3.5 Meetings are scheduled to take place at 6:30 p.m. except where the meeting falls within the month of Ramadan where they will aim to take place at 5:30 p.m. The Committee may wish to discuss an appropriate start time that suits its Members at the first meeting of the Committee.
- 3.6 It may be necessary to convene additional meetings of the Committee should urgent business arise. Officers will consult with the Chair and Members as appropriate.

### **4. EQUALITIES IMPLICATIONS**

- 4.1 When drawing up the schedule of dates, consideration was given to avoiding school holiday dates and known dates of religious holidays and other important dates where at all possible.

### **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
  - Consultations,
  - Environmental (including air quality),
  - Risk Management,
  - Crime Reduction,

- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 Not applicable to this report.

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

This report recommends that the Audit Committee note its Terms of Reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1 – 3. There are no direct financial implications arising from this report.

## 7. **COMMENTS OF LEGAL SERVICES**

7.1 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 updated terms of reference are consistent with the legal framework and Part A, Section 10 of the Council's Constitution and have been adopted by Council in accordance with Part A, Section 7(a).

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

### **Linked Report**

- NONE
- 

### **Appendices**

- Appendix 1 – Audit Committee Terms of Reference
- Appendix 2 – Membership
- Appendix 3 – Scheduled meetings for the Municipal Year

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

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

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

- NONE

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

N/A

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## 1. Audit Committee

<b>Summary Description:</b>	
<p>1. The Audit Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.</p> <p>2. The purpose of the Audit Committee is to provide independent assurance to the Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.</p>	
<b>Membership:</b> 8 Councillors. The Audit Committee shall not be chaired by a Member of the Executive.	
<b>Independent Person:</b> The Audit Committee may choose to appoint an Independent Person (IP) to advise and support the Committee. The IP will not be a member of the Audit Committee but would be entitled to attend all the meetings and associated training of the Committee. The IP can receive and comment on any reports submitted to the Committee, including restricted agenda items.	
<b>Functions</b>	<b>Delegation of Functions</b>
<u>Governance, Risk and Control</u>	None
1. To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.	
2. To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.	None
3. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.	None
4. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.	None
5. To monitor the effective development and operation of risk management in the Council.	None
6. To monitor progress in addressing risk-related issues reported to the committee.	None
7. To consider reports on the effectiveness of internal controls	None

and monitor the implementation of agreed actions.	
8. To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.	None
9. To monitor the counter-fraud strategy, actions and resources.	None
10. To review the governance and assurance arrangements for significant partnerships or collaborations.	None
<u>Internal audit</u>	None
11. To approve the internal audit charter.	
12. To review proposals made in relation to the appointment of external providers of internal audit services.	None
13. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.	None
14. To approve significant interim changes to the risk-based internal audit plan and resource requirements.	None
15. To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.	None
16. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.	None
17. To consider reports from the Head of Internal Audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: <ul style="list-style-type: none"> <li>a. Updates on the work of internal audit including key findings, issues of concern and management actions as a result of internal audit work.</li> <li>b. Regular reports on the results of the Quality Assurance and Improvement Programme (QAIP).</li> <li>c. Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) considering whether the non-conformance is significant enough that it must be included in the AGS.</li> </ul>	None
18. To consider the Head of Internal Audit's annual report, including: <ul style="list-style-type: none"> <li>a. The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that</li> </ul>	None

<p>support the statement.</p> <p>b. The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.</p>	
19.To consider summaries of specific internal audit reports as requested.	None
20.To receive reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.	None
21.To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.	None
22.To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations.	None
23.To provide free and unfettered access to the Audit Committee chair for the Head of Internal Audit, including the opportunity for a private meeting with the committee.	None
24.To commission work from internal audit.	None
<u>External audit</u>	None
25.To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA) or the authority's auditor panel as appropriate.	
26.To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.	None
27.To consider specific reports as agreed with the external auditor.	None
28.To comment on the scope and depth of external audit work and to ensure it gives value for money.	None
29.To commission work from external audit.	None
30.To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	None
<u>Financial reporting</u>	None
31.To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.	
32.To consider the external auditor's report to those charged with	None

governance on issues arising from the audit of the accounts.	
<u>Accountability arrangements</u>	None
33. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.	
34. To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.	None
35. To publish an annual report on the work of the committee.	None
<b>Quorum:</b> 3 Members of the Committee	

## LONDON BOROUGH OF TOWER HAMLETS

## COMMITTEE MEMBERSHIPS 2020- 2021

NOMINATIONS SUBMITTED TO THE ANNUAL COUNCIL MEETING ON 30<sup>th</sup> SEPTEMBER 2020

<b>AUDIT COMMITTEE</b> (Eight members of the Council)		
<b><i>Labour Group (7)</i></b>	<b><i>Conservative Group (1)</i></b>	<b><i>Ungrouped (0)</i></b>
Councillor Ayas Miah Councillor David Edgar Councillor Dan Tomlinson Councillor Kyrsten Perry Councillor Marc Francis Councillor Puru Miah Councillor Val Whitehead  Substitutes:-  Councillor Kevin Brady Councillor Abdal Ullah Councillor Bex White	Councillor Andrew Wood  Substitutes:-  Councillor Peter Golds	N/A

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**AUDIT COMMITTEE**

**SCHEDULE OF MEETING DATES 2020 - 21**

**Thursday, 12<sup>th</sup> November 2020**

**Thursday, 28<sup>th</sup> January 2021**

**Wednesday, 7<sup>th</sup> April 2021**

**Note**

All meetings will start at 6:30 p.m. unless otherwise determined by the Chair.

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Non-Executive Report of the:  <b>Audit Committee</b>  Thursday, 12 November 2020	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Corporate Director, Governance and Monitoring Officer	<b>Classification:</b> Open (Unrestricted)
<b>Internal Audit and Anti-Fraud Progress Report</b>	

<b>Originating Officer(s)</b>	Paul Rock
<b>Wards affected</b>	(All Wards);

## Executive Summary

This report provides an update on progress against the delivery of the 2019/20 and 2020/21 Annual Internal Audit Plan and highlights any significant issues since the last report to the Audit Committee in July 2020. An update on anti-fraud activity is also included.

## Recommendations:

The Audit Committee is recommended to:

1. **Note** the contents of this report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.
2. **Approve** the Council's Anti-Bribery Policy.

## 1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 state that a relevant authority must ensure that it has a sound system of internal control which:
  - facilitates the effective exercise of its functions and the achievement of its aims and objectives;
  - ensures that the financial and operational management of the authority is effective; and
  - includes effective arrangements for the management of risk.
- 1.2 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Committee in discharging its responsibilities.

## 2. ALTERNATIVE OPTIONS

2.1 None.

## 3. DETAILS OF THE REPORT

### Progress and Finalisation of the 2019/20 Internal Audit Plan

3.1 Since the last Audit Committee in July 2020 we have been working with management to finalise the remaining audits from the 2019/20 Internal Audit plan. The following audits have been finalised and may be used to inform the 2020/21 annual Head of Internal Audit opinion; summaries of these audits are included at Appendix A:

#### Substantial

- Kobi Nazrul Primary School
- Data Security and Protection Toolkit
- Creditors System

#### Limited

- IR35 Off Payroll Engagement
- Financial Assessments
- Capital Programme Governance
- Acquisition of Properties for Temporary Accommodation

3.2 The following reports remain outstanding from 2019/20

**Table 1 – Outstanding Draft Reports from 2019/20 (Draft opinions are subject to change)**

Audit Title	Draft Opinion	Directorate	Date report first Issued	Current Status
Monitoring of Domiciliary Care Contracts	Limited	HAC	07/01/2020	Numerous reminders sent to officers but incomplete response.
Corporate Governance	Limited	Authority wide	15/05/2020	Finalising report.
Local Community Fund	Substantial	Governance	16/06/2020	Further evidence requested from management in response to their feedback on the draft report.

3.3 Two of the draft reports were issued during the height of the pandemic and in the middle of a national lockdown, which created some understandable

delays. To provide Committee members with some assurance that these audits will be finalised promptly, the lead Corporate Director for each of these reports has been invited to the Audit Committee by the Chair to provide an update.

### **Progress against 2020/21 Internal Audit Plan**

3.4 Since the last Audit Committee in July 2020 when the 2020/21 Annual Internal Audit Plan was agreed the following progress has been made:

#### **Audits at Planning Stage (Research)**

- Management and Monitoring of the Delivery of Efficiency Savings
- Overview and Scrutiny Functions
- Election Spending
- Drugs and Alcohol Services
- Treasury Management
- Housing Benefit Quality Assurance
- IT Project Governance and Management (IT Audit)

#### **Engagement Plans Issued to Management**

- Ethical Culture
- Management of Complaints
- New Town Hall Building Project
- Private Sector Compliance with Fire Risk Assessment
- Community Infrastructure Levy (CIL) Collection & Utilisation
- NNDR
- Asset Management (Place)
- Remote Working (IT Audit)

#### **Audits in Progress (Fieldwork)**

- Supporting Stronger Families – Grant Claim Certification
- Discretionary Housing Payments
- Remote Working (IT Audit)
- Debtors and Income Recovery
- Emergency Hardship Payments (Resident Support Scheme)
- Place Directorate Governance

#### **Draft Reports**

- Payment Controls for Temporary Accommodation
- Pension Administration
- Cyber and Network Security (IT Audit)
- PCI and DSS Compliance (IT Audit)
- Housing Allocations and Lettings

#### **Finalised Reports**

- Parking Permits and Payments (Limited Assurance)
- Backup Schedules and Protection (IT Audit) (Limited Assurance)

### Deferred Audits

- Control and Monitoring of Agency Staff; new contract has just been awarded and needs to be embedded.
- Adult Social Care Payments – Reconciliations; now offering support and advice to introduce spot checks to manage block payment risks.

3.5 Summaries of the two finalised audits in the above summary are also included at Appendix A.

### Implementation of Agreed Management Actions

3.6 In each instance where weaknesses have been identified, Internal Audit has obtained an agreed management action plan to address the weaknesses and improve the risk management, governance and/or controls.

3.7 Historically, internal audit has followed up high and medium priority recommendations six months after the issue of the final reports to assess the progress made in implementing the agreed actions. We reviewed our approach to following up management actions and reporting progress to the Audit Committee and implemented the new process from May 2020.

**Table 2 – Implementation of Agreed Management Actions**

	<b>High Priority</b>	<b>Medium Priority</b>
Number of Agreed Management Actions Followed Up	16	13
Number of Management Actions Fully Implemented	11	7
Number of Management Actions Partially Implemented	5	4
Number of Management Actions Not Implemented	0	2
% Fully Implemented	69%	54%
% Partially Implemented	31%	31%
% Not Implemented	-	15%

3.8 The new process we introduced appears to be having a positive effect; full implementation of high priority recommendations has slightly increased from the same time last year, and the remaining 31% have been partially implemented; we anticipate this will improve further and are grateful for management's support.

### Public Sector Internal Audit Standards

3.9 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to periodically self-assess conformance against the standards and report to the Audit Committee any partial or non-conformance as well as a plan to address any such issues.

3.10 The Committee were previously advised of the self-assessment for 2019/20 and the resulting action plan to address the areas of partial/non-compliance. Progress against this action plan is summarised in Appendix B. Actions that have previously been reported to the Committee as completed have been removed from the update.

### **Corporate and Social Housing Fraud**

3.11 The Corporate Anti-Fraud Team consists of the following sub teams:

- Intelligence
- Social Housing
- Corporate Investigations
- Blue Badge

3.12 There is also an investigator in the Insurance Service who examines the integrity of insurance claims to eliminate fraudulent submissions and repudiate inappropriate claims.

3.13 In addition to investigating referred cases, the Corporate Anti-Fraud Team also undertakes various proactive exercises and coordinates the Council’s participation in the National Fraud Initiative, a biennial proactive data matching exercise run by the Cabinet Office in which each local authority must participate.

3.14 The various fraud teams continue to diligently investigate allegations of fraud as and when they arise. In line with the Council’s strategy during the pandemic, only essential services were in operation and key workers deployed and to minimise the risk to the investigators and the public, interviews, foot patrols and visiting were stopped, although desktop investigations have continued throughout. In October 2020 we received confirmation that our service risk assessment had been agreed in line with the Council’s recovery and reconstitution process, and with the appropriate safety measures in place some visiting and interviews have recommenced, however its likely we will see a reduction in outcomes over the coming months until the backlog of investigation and Court work is cleared. The Courts are currently adjourning most cases whilst they clear their own backlog. Most Court cases are being relisted for hearings in 2021 and 2022.

### **Summary of Referrals and Outcomes for 2020/21**

3.15 A summary of referrals and outcomes for 2020/21 is show below:

**Table 3 - Corporate Fraud Team, April 2020 to 30 September 2020**

<b>No. of referrals</b>	<b>Closed</b>	<b>Rejected</b>	<b>Ongoing</b>
10	3	2	5

**Table 4 - Social Housing Fraud Team, April 2020 to 30 September 2020**

No. of Referrals	Closed	Rejected	Ongoing	Properties Recovered	RTB Applications Stopped	Misc. successful outcomes
144	34	26	173	7	2	0

**Table 5 - Insurance Investigator Caseload 2020/21**

Total No. of claims received:	83
No. of claims investigated:	19
Total value of claims investigated:	£301,708
No. of claims repudiated as a result of investigation:	7
No. of claims withdrawn during investigation:	0
Total value of claims repudiated or withdrawn (above):	£99,320

- 3.16 In addition, a further 10 claims with a reserve value of £175,598 remain under investigation.
- 3.17 In addition to the investigation activity summarised above we are currently supporting HMRC with investigation's into alleged fraud arising from the Eat Out to Help Out scheme, where potential false claims have been made. We have also supported the investigation of fraudulent claims made to obtain relief under the Business Rate Relief Scheme.

### **Proactive Anti-Fraud Activity**

- 3.18 In order to regain ground lost to the impact of the of the pandemic we are planning a validation exercise with the Blue Badge Digital Service to recover badges where the Badge Holder has passed away and the relatives have not returned the badge for cancelation. It is not uncommon for these badges to be sold and/or misused. It is hoped that this proactive exercise will ensure that more parking is available for Blue Badge holders. We are also seeking to re-establish our foot patrols as soon as possible, subject to staff safety and prevailing government advice.
- 3.19 In our work with Tower Hamlets Homes we intend to work jointly on allegations of misuse of tenanted and leasehold units which are being inappropriately advertised via Airbnb.

### **National Fraud Initiative 2020/21**

- 3.20 The Corporate Anti-Fraud Team coordinates the Council's mandatory participation in the National Fraud Initiative (NFI) which is led by the Cabinet Office. The NFI is a cross-government data matching exercise designed to identify error and fraud. It is important to note that a match on the NFI does not mean that fraud is occurring, it simply means there is a data anomaly that

requires further investigation and may result in data being corrected as well as a more substantial fraud investigation.

3.21 In the last few months work has begun on data submission for the 2020/21 NFI exercise. In accordance with the requirements, the Council will submit data for the following areas:

- Payroll
- Pensions
- Trade creditors' payment history and trade creditors' standing data
- Housing (current tenants) and right to buy (former tenants)
- Housing waiting lists
- Housing benefits (provided by the DWP)
- Council tax reduction scheme
- Residents' parking permits
- Blue Badges (Supplied by Central Government)
- Concessionary Travel Passes (Submitted by the provider)

3.22 Other datasets will be requested by the Cabinet Officer at a later date in the exercise. Council Tax and Electoral Register data is usually submitted between December and February.

3.23 The Cabinet Office will match these data sets with data from other authorities as well as other organisations in the private and public sectors. The results of these matches will be released to the Council in January 2021.

### **Anti-Bribery Policy**

3.24 Since the Bribery Act 2010 was introduced the Council has maintained an anti-bribery policy and procedures. The Anti-Bribery Policy is reviewed annually to ensure it remains up to date and fit for purpose. It is then submitted to the Audit Committee for approval. The reviewed and updated (minor details) policy is attached at Appendix C.

## **4. EQUALITIES IMPLICATIONS**

4.1 There are no equalities implications.

## **5. OTHER STATUTORY IMPLICATIONS**

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are

required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 Other than the Accounts and Audit Regulations 2015 there are no other statutory implications.

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

6.1 Other than the requirements on the authority and responsible financial officer set out in the Accounts and Audit Regulations 2015, there are no significant financial implications.

## **7. COMMENTS OF LEGAL SERVICES**

7.1 This report is compliant with the Council's legal duties in respect of risk and internal audit. It also demonstrates compliance with the Corporate Director Resources' statutory duties under s.151 of the Local Government Act 1972.

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

### **Linked Report**

- None.

### **Appendices**

- Appendix A – Summary of Finalised Audits
- Appendix B – PSIAS Action Plan
- Appendix C – Anti-Bribery Policy

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

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

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

- None.

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

Paul Rock, Head of Internal Audit, Fraud and Risk  
Tel: 07562 431830. Email: [paul.rock@towerhamlets.gov.uk](mailto:paul.rock@towerhamlets.gov.uk)

Summaries of Finalised Internal Audits

Assurance level	Significance	Directorate	Audit title
<b>LIMITED</b>	Extensive	Resources	IR35 – Management and Control of Off Payroll Engagement
	Extensive	Resources	Backup Schedules and Protection
	Extensive	Place	Control and Monitoring of Parking Permits
	Extensive	Health, Adults and Community and Resources	Financial Assessments for Residential and Non-Residential Support
	Extensive	Resources and Place	Capital Programme Governance
	Extensive	Place	Management of Acquisition of Properties for Temporary Accommodation
<b>SUBSTANTIAL</b>			
	Extensive	Resources	Creditors System
	Extensive	Governance	Data Protection and Security Toolkit -Compliance Review
	Moderate	Children and Culture	Kobi Nazrul Primary School

## Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
IR35 – Management and Control of Off Payroll Engagement	August 2020	<p>This audit sought to provide assurance on the adequacy and effectiveness of the control framework across the council with regards to compliance with IR35 requirements in terms of employment status. IR35 is tax legislation introduced to address Government concerns about tax avoidance. It challenges whether people who supply their services to the Council via their own company and therefore are 'self-employed' (and recognised by HMRC as such), often referred to as 'off payroll', or whether the work should be taxed as PAYE. Since 6 April 2017 public sector bodies have had a duty to ensure that people working for them through intermediaries are paying the right tax and complying with IR35. HMRC has an online tool - Check Employment Status for Tax (CEST) questionnaire, to assist organisations in assessing whether individuals are within or outside of the scope of IR35, and to inform the decision on whether to tax that individual via PAYE.</p> <p>The following issues were reported:</p> <ul style="list-style-type: none"> <li>• The prompt on Proactis (eRFQ) for staff to carry out a CEST test is not clear enough to engage officers. The Council's intranet page and the IR35 process contains the contact details for the former Agency Contract Manager and does not include the contact details for the Operational Accountancy Manager, who has responsibility for tax compliance and IR35 within the Council. The process does not outline how to correctly complete and upload a CEST test, and the implications of non-compliance.</li> <li>• Whilst guidance was provided to engagement officers between September – November 2018 through 'lunch time learning sessions' and a briefing to the Finance Management Team, these sessions were not mandatory and no subsequent learning sessions or briefings have been delivered, to ensure that all engaging officers know how to completely correct a CEST test. Our</li> </ul>	Extensive	Limited

		<p>survey circulated to a sample of 20 staff (of which we received 5 back) indicated that staff did not have a complete understanding of IR35.</p> <ul style="list-style-type: none"> <li>• Our testing on a sample of 28 suppliers engaged through Proactis (eRFQ) to confirm whether an IR35 assessment had been carried out identified: <ul style="list-style-type: none"> <li>○ One instance where a supplier was incorrectly assessed as being within the scope of IR35 when in fact they were outside the scope of IR35, after we had re-performed the CEST test.</li> <li>○ Eight instances where the engaging officer had indicated that the supplier was delivering goods, when in fact the suppliers in question were actually delivering services, where a CEST test is mandatory.</li> <li>○ Eight instances where a tick box was checked indicating that a CEST test was carried out with the outcome “IR35 does not apply”, however evidence of the CEST test was not held on the Proactis system, detailing how the engaging officer came to the conclusion.</li> <li>○ One instance related to a grant payment which should not have gone through the Proactis (eRFQ) system in the first place.</li> <li>○ Three instances where a CEST test was required, however we were unable to obtain evidence of the completed CEST test as this was not uploaded onto Proactis. Two of the three in question were companies with single officers where the work may fall within scope as the services were in relation to the South Service Capacity Building Project. We were unable to verify details for the other company due to no records being available on Companies House.</li> </ul> </li> <li>• There is no process of regular compliance checking to confirm whether agency workers outside the scope of IR35 have been categorised correctly on the Fieldglass system.</li> <li>• We reviewed a sample of 20 invoices paid from April 2019 to date, where no corresponding purchase order was raised (a “direct commission” order). In all</li> </ul>		
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		<p>20 instances tested, no evidence was held to demonstrate whether a CEST test was carried out, and whether the scope of work fell inside or outside IR35 regulations.</p> <ul style="list-style-type: none"> <li>• Since the disbanding of the Council's compliance team, there is no proactive monitoring place of engagements and whether IR35 regulations are being correctly followed and applied. Prior to the disbanding of the Compliance team, the process was such that a nominated HR officer would produce a list of all new engagements in the previous month and send this to the Compliance team, who would confirm whether the CEST test had been performed correctly. Additionally, there is no process of reporting compliance with IR35 to any directorate.</li> </ul> <p><b>Results of Follow Up</b></p> <ul style="list-style-type: none"> <li>• We reviewed the implementation status of the seven high and two medium priority recommendations raised during the previous audit on IR35 Off Payroll Engagement in 2017/18. We found that three high and two medium recommendations have not been implemented, including holding documentary evidence of IR35 assessments, producing monthly reports from Proactis and checking whether suppliers have been assessed for compliance with IR35, reporting to the Corporate Director from the [former] Compliance Team in relation to IR35 compliance and the progress of measures put in place to reduce the risk of non-compliance with IR35.</li> </ul> <p>All findings and recommendations were discussed and agreed with the Director of Finance, Procurement and Audit, Divisional Director, Human Resources, Head of Procurement, Operational Accountancy Manager, Contracts and Supplier Development Manager and Agency Contract Manager between June and August 2020, and the final report was issued in August 2020 to Corporate Director, Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Backup Schedules and Protection	August 2020	<p>This audit sought to provide assurance that the processes and systems for backup data and key information systems across the Council are sound and secure to meet the agreed objectives.</p> <p>The following issues were reported:</p> <ul style="list-style-type: none"> <li>• The Council does not have appropriate backup arrangements and policies for the vendor hosted and Azure hosted applications.</li> <li>• There is no appropriate and regular restoration testing process in place for the Council to recover in the event of failure, potentially resulting in significant data loss.</li> <li>• There is no appropriate secured transmission of the backed up data.</li> <li>• There were two failed daily backups repetitive from December 2019 and thus an ineffective backup monitoring control in place.</li> </ul> <p>All findings and recommendations were discussed and agreed with the Divisional Director IT, Head of Business Applications and Contracts and Commissioning Manager in August 2020, and the final report was issued in August 2020.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Parking Permits	Sept. 2020	<p>This audit examined and assessed the systems and controls for administering parking permits by the Parking Team. Some £4.1M was received in income from parking permits during 2019/20. The service migrated to a new IT application, called WSP Taranto in October 2019. The system has limitations such as lack of matching facility with Council Tax, NNDR and Council data bases for validation of names and addresses. Between October 2019 and May 2020, a total of 27,000 permits had been issued. The following key issues were reported:-</p> <ul style="list-style-type: none"> <li>• Previous audit reviews undertaken in 2009 and 2017 identified lack of clear officers' delegated authority for the effective administration and management of all categories of Parking Permits. The previous audit recommendations to improve governance, delegation and decision making were still un-implemented. For example, a new policy on mini-zones coming into effect from 1/09/20, was agreed by the Parking Policy Review Group (PPRG), but the decision making authority and delegation for this group needed to be formalised.</li> <li>• There was no reconciliation between income recorded on Taranto with the income on AIMS and General Ledger system. There was no assurance that all income had ben received and accounted for.</li> <li>• Budget monitoring and forecasting was unreliable and hampered decision making. Budget forecasts and working papers were not retained by the budget holder. Significant changes in forecasts were noted from month to month which were not supported by complete and reliable commentary or any proposals for mitigation.</li> </ul>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Parking Permits	Sept. 2020	<ul style="list-style-type: none"> <li>• A significant number of permits (11 out of a sample of 31) had been issued without the required proofs and without further checks such as matching against the Council Tax, and other databases. This increased the risk of fraud and irregularities.</li> <li>• There was a system of quality checking in place and these checks were documented on a spreadsheet. A review of the spreadsheet showed that there were a number of cases where correct documents were not submitted and criteria were not met. Once these issues were identified, the applicants should have been approached to provide correct documents so that it could be demonstrated that they met the required criteria.</li> <li>• Most permits are now issued virtually. A small stock of hard copies of permits is still retained for multi vehicle permits and visitor scratch cards for residents. There was no evidence of regular reconciliations being carried out between stocks held and permits issued.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director of Public Realm and final report was issued to the Corporate Director, Place.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Financial Assessments for Contributions to Adults and Social Care (ASC)	Oct. 2020	<p>This audit examined systems for ensuring that the Council's arrangements for managing financial assessments and other associated procedures including recovering of outstanding debts were sound and secure. Financial assessments are undertaken for all individuals that meet the eligibility criteria for residential and non-residential support. Currently, there are 740 and 2,500 service users respectively, receiving residential and non-residential support. Since the introduction of charging for non-residential care, £4.5m has been collected. Outstanding debts are at £1.4m (as at March 2020). Testing identified that financial assessments were completed correctly for all 21 non-residential and 10 residential cases in our sample. In all these cases, clients' financial information was either verified against information held on the DWP portal or by obtaining bank statements and other documents. Where DWP portal was used, consent forms were signed. The following key issues were also reported:</p> <ul style="list-style-type: none"> <li>• Service users subject to S117 of the Mental Health Act should be exempt from charges. Testing of 60 cases classified as S117, found that there was risk that some service users were flagged as S117 erroneously. This increased the risk of potential loss of income to the Council. The Financial Assessment Manager advised audit that the Team are reliant on the accuracy of information held on MOSAIC and information provided by the Mental Health Team.</li> <li>• In absence of a service level agreement between ASC, Legal Services and the Financial Assessment Team, there were no clear responsibilities for ensuring that a Deferred Payment Agreements are drawn up, charges are secured on the service user's property and documents are retained.</li> <li>• It is important that financial assessments are conducted as soon as care packages are created for invoices to be raised promptly where contributions are due. Testing showed that financial assessments were carried out several months after the care packages commenced.</li> </ul>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Financial Assessments for Contributions to Adults and Social Care	Oct. 2020	<ul style="list-style-type: none"> <li>• Invoices were being raised long time after the placements which in turn increases the risk of income control. Currently, service users are given financial declaration packs for completion by the social worker arranging the care package, and it is this process which requires improvement. We have recommended that consideration should be given to developing a technical solution which would allow service users or their next of kins to provide the financial declarations and supporting documentation online.</li> <li>• We found that there was a delay in generating the first invoice in the majority of residential and non-residential care packages, in some cases many months. Testing of 10 client accounts in arrears showed that in 3 of 7 relevant cases, the first invoices had been issued up to a year later.</li> <li>• The recovery of adult social care debts diverges from that for other sundry debts in that judgements made by the court are not being enforced. The Corporate Debt Recovery Policy advises that the needs of vulnerable residents should be taken into account in the collection process, however debts relating to adult social care are not enforced as a matter of course and hence a clear policy for recovering social care debts is required.</li> <li>• The work of the Financial Assessment Team is governed by legislation and corporate policies, supplemented by internal procedure notes. There are some areas such as quality assurance, residential billing, deferred payments etc. which are not covered by the written procedure notes.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director, Adults Social Care and Head of Benefits. Final report was issued to the Corporate Director of Health, Adults and Community. Following this, a Project chaired by the Divisional Director, ASC has been commenced.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Capital Programme Governance	Oct. 2020	<p>This audit sought to provide assurance over the governance arrangements for the Council's capital programme and projects. The Capital programme for 2019/20 was set at £378M. The governance of capital is through the Capital Strategy Board, Asset Management &amp; Capital Delivery Board and Asset Management &amp; Capital Delivery Working Group. Roles and responsibilities of these groups were clearly set out in relevant terms of reference. The Capital Programme Process and Guidance (V4 February 2020) clearly set out the responsibilities of all managers and staff engaged in the delivery of the Council's Capital Programme. The audit highlighted the following issues:-</p> <ul style="list-style-type: none"> <li>• The Council's Financial Regulations require capital programming to be undertaken over a three-year rolling period. The Council's Capital Strategy (7<sup>th</sup> February 2017), extended the Capital Programme planning from 3 years to 5 years and in January 2019, the capital programming was further extended to 10 years. Planning capital expenditure over such a long term period has the risk of having a "wish list" of capital projects – there being no assurance that the necessary capital funding was available in the first instance. A fundamental review of the Capital Programming for 2020-2023 has been undertaken to cover capital programme for the current financial year and two subsequent financial years.</li> <li>• Adequate profiling of capital budgets could not be undertaken due to limitations in the current Agresso financial system. This, together with the time lag of six weeks in carrying out the manual reconciliation process at the end of each quarter, resulted in capital budgets showing as underspent. For example, the Capital programme for the 2019/20 was set at £378m of which only £121.7m or 32% had been spent as at the end of period 9. For period 12, capital spend is £180M which is 47.6%.</li> </ul>	Substantial	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Capital Programme Governance	Oct. 2020	<ul style="list-style-type: none"> <li>• The Capital Growth Bid forms part of the Office of Governance Commerce (OGC) Gateway Approval process. The capital approvals process must follow the OGC Gateway process. Audit testing of 10 Capital Growth Bids showed that there were issues regarding authorisation of the bids, identification of funding sources and completion and approval of the Project Initiation Documents (PIDs). Legal comments on the application of s106 funding were not provided for two PIDs. Legal comments are an essential part of the governance process to demonstrate to developers of how planning contributions are to be spent.</li> <li>• Audit was advised by officers that there was no alignment of the financial information held by the Capital Delivery team (reported through the Capital Programme tracker) and that reported by Finance to Cabinet through the quarterly Revenue and Capital Budget monitoring process to Cabinet.</li> <li>• A complete list of all authorised Exception Record /Change Control documents was not maintained by a single officer, which increases the risk that not all Change Controls can be captured and reported to the Cabinet. Of the eleven Exception Record /Change Control reports approved by the Capital Strategy Board between 12/04/2019 and 27/01/2020, seven had been reported to Cabinet for approval.</li> <li>• An examination of papers of Asset Management &amp; Capital Delivery Working Group and Asset Management Capital Delivery Board showed there was poor attendance at these meetings from some Directorates.</li> </ul> <p>All findings and recommendations were agreed by the Interim Divisional Director, Finance, Procurement and Audit and final report was issued to Corporate Directors Resources and Place.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Acquisition of Properties for Temporary Accommodation	Oct. 2020	<p>This audit sought to provide assurance over the systems and controls for managing property purchases. The acquisition programme was agreed by the Individual Mayoral Executive Decision process (Decision log (No: 176)) on 23<sup>rd</sup> October 2017 and agreed by the full Council on 22<sup>nd</sup> November 2017. Capital estimates were adopted totalling £119M – Poplar Harca (£19M), Purchases In and Out of Borough (£40M) and acquisition of S106 properties (£60M). Cabinet and the Full Council also agreed £30M and £20M respectively in February 2017 and January 2019. The following issues were reported :-</p> <ul style="list-style-type: none"> <li>• As at December 2018, the actual spend on Poplar Harca was some £53.6M. In December 2018, a Change Note approved the merging of three separate capital budgets into one and also approved the programme name change. The Change Note stated that verbal agreement was obtained from the Mayor so that £60M could be used for purchasing properties for temporary accommodation as well as for S.106 properties. At the time of this audit in January 2020, the Change Control was not reported to the Cabinet. Procedures require all Change Controls to be reported to Cabinet for approval as part of the Quarterly Revenue and Capital Budget Monitoring process.</li> <li>• We have recommended that the success , costs, benefits, value for money, lessons learnt etc. of the Acquisition programme in meeting the Council's objectives and priorities should be reported to Cabinet.</li> <li>• The report for the adoption of capital estimates for the three capital projects did not clearly identify in detail the resources to fund these projects. We have recommended that in future when capital budgets are adopted by the Mayor or the Cabinet, the associated funding streams and the amount of funding available is clearly identified for approval.</li> </ul>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Acquisition of Properties for Temporary Accommodation	Oct. 2020	<ul style="list-style-type: none"> <li>• We were informed by the Council's Insurance service that they had not been notified of details of the properties acquired. Hence there was risk that these properties were not insured against key risks.</li> <li>• Testing of a sample of 20 properties purchased for the period January 2018 to date showed that the Officers' Authority (OA) for 6 properties over £250k but under £5M was correctly authorised. However, the approval process for remaining 14 acquisitions was not entirely in line with the officer's scheme of delegation.</li> <li>• Each acquisition required to be financially assessed for value for money by Finance before approval was given. Audit testing of 20 purchases showed no evidence of a system in place for financial assessment and consultation with Finance to be undertaken before purchase approval.</li> <li>• Once properties are purchased by LBTH, repairs and associated works are managed by Tower Hamlets Homes. Sample testing of 20 repairs found that some control improvements were required, especially in the area of approval for variations orders by LBTH. There were significant variations and in some cases the variations were over 100% of the original order values which should require approval by LBTH client.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director, Housing and Regeneration and final report was issued to Corporate Directors Place and Resources.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors Systems	September 2020	<p>This audit sought to provide assurance that the systems of control within the Creditors system are sound, secure and operating effectively.</p> <p>The following issues were reported:-</p> <ul style="list-style-type: none"> <li>• Leaver access rights were not being terminated in line with agreed timescales. Our sample testing of ten leavers for the period April 2019 to January 2020 found eight employees were not removed within the required one day window. Four of the eight were caused by HR not providing a leaver notification.</li> <li>• Review of approvers' access to the system highlighted four leavers who had previously been flagged in our 2018/19 audit were still live on the system. We identified two more leavers who had not had their access revoked. From our discussions we understand the main reason for access not being revoked was due to delays in managers informing HR of leavers.</li> </ul> <p>All findings and recommendations were discussed and agreed by the Head of Financial Systems in September 2020 and the final report was issued in September 2020.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Data Security and Protection Toolkit Compliance Review	August 2020	<p>The purpose of the audit was to provide an independent high level review of the assertions and evidence items in the DSP Toolkit return in December 2019 and to identify how compliance could be improved for the 2019/20 year-end return. At the time of the audit, the Council had completed 33 of the 42 assertions in the DSP Toolkit return. For a sample of 10 of the 33 completed assertions, we reviewed the evidence to ensure compliance with the DSP Toolkit requirements.</p> <p>Testing found that there was insufficient evidence to completely support, at the time of the audit, four of the 16 mandatory sub-assertions across three of the ten assertions included in our sample. We found that the evidence provided for these sub-assertions does not meet the requirements of the DSP Toolkit. The key exceptions relate to the absence of sufficient evidence uploaded to the DSP Toolkit to support the following:</p> <ul style="list-style-type: none"> <li>• There is a clear understanding of what Personal Confidential Information is held</li> <li>• The Council maintains a current record of staff and their roles</li> <li>• All staff understand that their activities on IT systems will be monitored and recorded for security purposes.</li> </ul> <p>We noted that where assertions have been completed, the work done to date has, to a large extent, been in line with the requirements of the Toolkit. However, in order to comply with the DSP Toolkit, the Council is required to meet all mandatory sub-assertions, therefore further work will be required ahead of the year-end submission to address the identified areas of non-compliance and to complete all remaining assertions that were not tested as part of this audit.</p> <p>All findings and recommendations were discussed and agreed with Head of Information Governance and Senior Information Officer and Schools Data Protection Officer in July 2020, and the final report was issued in August 2020.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Kobi Nazrul Primary School	July 2020	<p>This audit sought to provide assurance that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school.</p> <p>The following issues were reported:</p> <ul style="list-style-type: none"> <li>• The evidence available at the time of the audit was insufficient to demonstrate that the required procedures to ensure adequate control over procurement, including sufficiency of quotations for high value purchases and lease agreements. The Schools procurement card, goods receipts are not retained or evidenced for purchases and there is no independent review of the credit card statements. This could result in purchases of goods and services that are not appropriate or do not provide value for money.</li> <li>• There was a shortfall in the controls relating to the school bank account as a school Governor was inappropriately included as an authorised signature. This could result in a Governor no longer acting independently.</li> <li>• There was inadequate Governance and controls for the following committees the Head Teacher Performance Review Committee, Finance, Premises and Personnel Committee and Pay Committee.</li> </ul> <p>All findings and recommendations were discussed and agreed with the Head Teacher in July 2020, and the final report was issued in July 2020.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditor Systems	September 2020	<p>This audit sought to provide assurance that the systems of control within the Creditors system are sound, secure and operating effectively.</p> <p>The following issues were reported:-</p> <ul style="list-style-type: none"> <li>• Leaver access rights were not being terminated in line with agreed timescales. Our sample testing of ten leavers for the period April 2019 to January 2020 found eight employees were not removed within the required one day window. Four of the eight were caused by HR not providing a leaver notification.</li> <li>• Review of approvers' access to the system highlighted four leavers who had previously been flagged in our 2018/19 audit were still live on the system. We identified two more leavers who had not had their access revoked. From our discussions we understand the main reason for access not being revoked was due to delays in managers informing HR of leavers.</li> </ul> <p>All findings and recommendations were discussed and agreed by the Head of Financial Systems in September 2020 and the final report was issued to the Corporate Director, Resources in September 2020.</p>	Extensive	Substantial

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## Public Sector Internal Audit Standards Action Plan Progress

Attribute Standards	Action	Progress
<p><b>1130 Impairment to Independence or Objectivity</b></p> <p>The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting does not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.</p>	<p>Document in the audit manual how the risk of over-familiarity will be managed and ensure the management of this risk is documented on each audit file.</p>	<p><b>Partially complete</b></p> <p>Target date: 31 March 2020</p> <p>This has been achieved – a form has been created and added to the Planning section of the Electronic Audit File.</p> <p>The Audit manual requires further revision to reflect the recent changes in work practices post Covid-19.</p> <p>Revised target date: 31 December 2020</p>
<p><b>2040 Policies and Procedures</b></p> <p>The chief audit executive must establish policies and procedures to guide the internal audit activity.</p>	<p>Review the audit manual and the electronic audit management system (Galileo) to ensure both reflect current working practices and standards.</p>	<p><b>Partially complete</b></p> <p>The review of Galileo is complete, and we have decided to terminate the contract with the provider and adopt an in-house system saving the Council approximately £10,000 a year.</p> <p>The audit manual is currently being reviewed and revised.</p> <p>Original target date: 31 March 2020 Revised target date: 31 December 2020</p>

Attribute Standards	Action	Progress
<p><b>2110 Governance</b></p> <p>The internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes.</p> <p>The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.</p> <p>The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.</p>	<p>Undertake an authority wide audit of Corporate Governance.</p> <p>Internal Audit must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.</p> <p>Internal Audit must review whether the organisation's information technology governance supports the organisation's strategies and objectives.</p>	<p><b>Complete.</b></p> <p>Audits of corporate governance and IT strategy/governance have been completed.</p>
<p><b>2210 Engagement Objectives</b></p> <p>Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.</p>	<p>Internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board. The criteria should be documented in the engagement plan and audit file.</p> <p>An engagement plan must be issued for every consultancy engagement and the objectives set for consulting engagements must be consistent with the organisation's values, strategies and objectives and address governance, risk management and control processes as agreed with the client.</p>	<p><b>Complete</b></p> <p>Whilst no consulting engagements have been accepted since November 2019. Going forward all consulting engagements will be agreed and documented through an engagement plan and the results will be communicated to senior management and the board.</p> <p>The audit manual has been revised to ensure it reflects expectations on auditors to identify appropriate evaluation criteria through discussion with</p>

Attribute Standards	Action	Progress
<p>Types of criteria may include internal policies and procedures, laws and regulations imposed by statutory bodies and leading practices (e.g. industry and professional guidance).</p> <p>Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.</p> <p>Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.</p>	<p>The results of the subsequent engagement must be consistently communicated to senior management and the board.</p>	<p>management and/or the board.</p>
<p><b>2450 Overall Opinion</b></p> <p>When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.</p>	<p>The annual report and opinion should incorporate all the elements recommended by the standards and application note.</p>	<p><b>Complete.</b></p> <p>The format of the 2019/20 was reviewed and aligned to the recommendations made in the Standards and application note. The report was presented to the Committee in July 2020.</p>

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# Anti-Bribery Policy

**Paul Rock,**  
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<b>Version</b>	<b>1.0</b>
<b>Date</b>	<b>Sept 2018</b>
<b>Last updated</b>	<b>Oct 2020</b>

## **Policy Statement - Anti Bribery**

Bribery is a criminal offence. The Council does not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements.

To use a third party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti-bribery compliance “business as usual”, rather than as a one-off exercise.

### **Objective of this policy**

This policy is intended to provide a coherent and consistent framework to enable the Council’s employees and others to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees to identify and effectively report a potential breach.

We require that all people associated with the Council, including those permanently employed, temporary agency staff, Members and contractors:

- Act honestly and with integrity at all times and to safeguard the Council’s resources for which they are responsible;
- Comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the organisation operates, in respect of the lawful and responsible conduct of activities.

### **Scope of this policy**

This policy applies to all of the Council’s activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.

Within the Council, the responsibility to control the risk of bribery occurring resides at all levels of the organisation. It does not rest solely within assurance functions, but in all business units and corporate functions.

This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency staff, contractors, non-executives, agents, Members (including independent members), volunteers and consultants.

### **This Council’s commitment to action**

The Council commits to:

- Setting out a clear anti-bribery policy and keeping it up to date;

- Making all employees aware of their responsibilities to adhere strictly to this policy at all times;
- Training all employees so that they can recognise and avoid the use of bribery by themselves and others;
- Encouraging employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately;
- Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution;
- Taking firm and vigorous action against any individual(s) involved in bribery;
- Providing information to all employees to report breaches and suspected breaches of this policy; and
- Dealing appropriately with bribery prevention as part of its procurement and contract monitoring processes.

### **Bribery – Definition**

Bribery consists of offering or giving a financial or other advantage with the intention of inducing a person to improperly perform a relevant function or activity or to reward a person for the improper performance of such a function or activity. A relevant function or activity includes any function of a public nature and any activity connected with a business

### **The Bribery Act**

There are four key offences under the Act:

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7)

The Bribery Act 2010 makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business. There is also a corporate offence under Section 7 of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

## Penalties

An individual guilty of an offence under sections 1, 2 or 6 is liable:

- On conviction in a magistrates court, to imprisonment for a maximum term of 12 months (six months in Northern Ireland), or to a fine not exceeding £5,000, or to both
- On conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both

Organisations guilty of an offence under section 7 are liable to an unlimited fine.

## Are we a “commercial organisation”?

The guidance states that a “commercial organisation” is anybody formed in the United Kingdom and “...it does not matter if it pursues primarily charitable or educational aims or purely public functions. It will be caught if it engages in commercial activities, irrespective of the purpose for which profits are made.”

Whether or not the Council is a “commercial organisation”, it is committed to meeting the standards set by the Bribery Act 2010.

## What are “adequate procedures”?

The guidance issued under the Bribery Act 2010 sets out six principles relevant to whether an organisation has adequate bribery prevention procedures in place. The Council is committed to proportional implementation of these principles and makes the specific commitments set out below.

### ***Principle 1: Proportionate procedures***

The Council has adopted this Anti Bribery Policy to set out its over-riding commitment to bribery prevention. The Council has related codes of conduct and procedures that are listed later in the policy.

### ***Principle 2: Top level commitment***

This policy has been agreed by the Corporate Management Team and the Mayor, along with the related action around risk assessment, due diligence, communication, training, monitoring and review.

### ***Principle 3: Risk Assessment***

The Council has identified key areas of risk in respect of property disposal, contract award and monitoring, sponsorship, grants and regulatory activity and enforcement. These risks will be subject review and monitoring within service areas. Regular risk reports will be considered by the Corporate Management Team and Members.

***Principle 4: Due diligence***

The Council applies due diligence procedures, taking a proportionate and risk-based approach, in respect of persons or organisations with whom it seeks or will seek services, or provides or will provide services for, in order to mitigate identified bribery risks.

***Principle 5: Communication (including training)***

This policy will be appropriately publicised within the Council and externally. A programme of training will be conducted for employees and Members.

***Principle 6: Monitoring and review***

This policy and performance under the policy will be the subject of annual review by the Corporate Leadership Team and the Audit Committee.

**Behaviours that will not be tolerated**

It is unacceptable to:

- give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that an advantage will be received, or to reward an advantage already given;
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to "facilitate" or expedite a routine procedure;
- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain an advantage for them;
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that an advantage will be provided by us in return;
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy;
- engage in activity in breach of this policy.

**Facilitation payments**

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions.

**Gifts and hospitality**

This policy is not meant to change the requirements of our gifts and hospitality policy set out in the Employees' Code of Conduct. This makes it clear that:

- A register of gifts and hospitality is maintained for each directorate.
- Hospitality may be offered to organisations on the Council's premises but only with the express permission of the Service Head or Divisional Director and on a scale appropriate to the occasion.
- Employees should return or refuse gifts, hospitality or favours that could put them in a compromising position or render them liable to accusations by other parties.

- Employees should not ask for any reward, tip, gift, Christmas box or other inducement and should not put themselves in debt to someone where this could influence their work.
- There may be occasions where some personal hospitality or small gift is permissible, but this should be discussed with the Service Head or Divisional Director and permission obtained.
- Before accepting a gift or hospitality, consideration should always be given to: the timing of decisions for letting contracts; the type of gift or hospitality; whether the firm may benefit from the Council's goodwill; whether the firm is seeking or has a contract; whether the visit is instructive or social; the scale and location of the hospitality and whether it falls in working hours; the frequency of the hospitality; and whether it is directed to a single person or a group.

Members remain subject to the Code of Conduct for Members, under which they make the following commitments:

- A commitment to honesty and integrity and a duty to uphold the law.
- To conduct themselves so as not to bring the Council into disrepute.
- Not to use or attempt to use their positions improperly to confer on or to secure (for themselves or another person) an advantage or disadvantage.
- To declare personal and prejudicial interests in the business of the authority.
- To have specified personal interests recorded in a register.

### **Public contracts and failure to prevent bribery**

The Council's commitment to prevent bribery is reflected in its procurement procedures. Under the Public Contracts Regulations 2015 (which gives effect to EU law in the UK), a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence. There are no plans to amend the 2015 Regulations for this to include the crime of failure to prevent bribery. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. This organisation has the discretion to exclude organisations convicted of this offence.

### **Staff responsibilities**

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the organisation or under its control. All staff must avoid activity that breaches this policy. Staff must comply with their terms and conditions of employment and the Employees' Code of Conduct.

Staff must:

- Read, understand and comply with this policy
- Raise concerns as soon as possible if they believe or suspect that a conflict with this policy has occurred, or may occur in the future.

As well as the possibility of civil and criminal prosecution, staff that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

## **Raising a concern**

This organisation is committed to ensuring that all of us have a safe, reliable, and confidential way of reporting any suspicious activity. We want each and every member of staff to know how they can raise concerns.

We all have a responsibility to help detect, prevent and report instances of bribery. If you have a concern regarding a suspected instance of bribery or corruption, please speak up – your information and assistance will help. The sooner you act, the sooner it can be resolved.

There are multiple channels to help you raise concerns. Staff can view the whistleblowing process at:

[http://towernet/staff\\_services/business\\_planning/whistleblowing](http://towernet/staff_services/business_planning/whistleblowing)

Staff that refuse to accept or offer a bribe, or those who raise concerns or report wrongdoing can understandably be worried about the repercussions. We aim to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

We are committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith.

Any external person who wishes to report a concern about bribery may do so by contacting any of the following –

**Tony Qayum, *Corporate Anti-Fraud Manager, 020 7364 4773***

**Paul Rock, *Service Head – Internal Audit, Anti-Fraud & Risk, 07562 431830***

**Asmat Hussain, *Corporate Director, Governance, 020 7364 4801***

### **Further Information:**

If you have any questions about these procedures, please contact Tony Qayum.

### **Other relevant policies:**

- Anti-Fraud and Corruption strategy
- Anti-Money Laundering policy
- Whistleblowing policy
- Employees' Code of Conduct
- Code of Conduct for Members
- Procurement procedures

**Useful links:**

CIPFA Better Governance Forum <https://www.cipfa.org/services/networks/better-governance-forum>

The Bribery Act [Bribery Act 2010](#)

Transparency International [Transparency International UK](#)

Protect (Previously Public Concern at Work) <https://protect-advice.org.uk/>

The British Standards Institution (Code of Practice on whistleblowing arrangements 2008, Anti Bribery Management System Standard late 2011) [BSI: Standards, Training, Testing, Assessment & Certification](#)

Department for Business Innovation and Skills (Blowing the whistle to a prescribed person)  
[http://www.direct.gov.uk/prod\\_consum\\_dg/groups/dg\\_digitalassets/@dg/@en/@employment/documents/digitalasset/dg\\_177605.pdf](http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/@employment/documents/digitalasset/dg_177605.pdf)

Non-Executive Report of the:  <b>Audit Committee</b>  Thursday, 12 November 2020	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Corporate Director, Governance and Monitoring Officer	<b>Classification:</b> Open (Unrestricted)
<b>Risk Management - Corporate Risk Register</b>	

<b>Originating Officer(s)</b>	Paul Rock
<b>Wards affected</b>	(All Wards);

### Executive Summary

This report presents the Audit Committee with the opportunity to review the Corporate Risk Register

### Recommendations:

The Audit Committee is recommended to:

1. **Note** the corporate risks, and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at the next Committee meeting (or separately before the meeting if urgent).
2. **Note** the progress made against the Annual Action Plan for Risk Management.
3. **Decide** which Directorate level risk register the Committee would like to review at its meeting in January 2021.

### 1. REASONS FOR THE DECISIONS

- 1.1 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Committee in discharging its responsibilities.

### 2. ALTERNATIVE OPTIONS

- 2.1 None.

### **3. DETAILS OF THE REPORT**

- 3.1 The Head of Risk has been working with Corporate and Divisional Directors to update the Corporate Risk Register. The updated register is attached at Appendix A. This register was presented to CLT in September 2020 for their review and agreement.
- 3.2 The Audit Committee should review the Corporate Risks and be satisfied that the risks are appropriate. In doing so the Committee may wish to consider the following questions:
- a. Are these the key, corporate level risks that might prevent the Council from achieving its objectives?
  - b. Are there any key, corporate levels risks missing, bearing in mind there are many more risks being managed at Directorate and Service level?
  - c. Are the risks up to date, scored correctly and owned appropriately?
  - d. Are the control measures (actions) up to date and owned appropriately?
  - e. Do you want to request any of the risk owner(s) to provide a more detailed update on the treatment and mitigation of their respective risk(s) including impact on the corporate objectives?
  - f. Do you require any independent assurance from Internal Audit or elsewhere that the corporate risks are being appropriately managed?

#### **Recommendation**

- 3.3 The Committee is recommended to **note** the corporate risks, and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at the next Committee meeting (or separately before the meeting if urgent).

#### **Progress against Annual Action Plan for Risk Management**

- 3.4 Progress against the Annual Action Plan for Risk Management has been slow as a recruitment freeze remains in place and there are no dedicated risk resources in the Risk Team. Nevertheless, some progress has been made as follows:
- The Risk Management Strategy has been updated and was approved by the Audit Committee in July 2020.
  - Each Directorate has nominated a Risk Champion to lead on risk in their respective Directorates. The Risk Champions meetings have been reconstituted; the first meeting is to be held on 13<sup>th</sup> November 2020.

- The Corporate Leadership Team have been requested to ensure risk management features at least quarterly on their Divisional Leadership Team meeting agendas.
- The Directorate Risk Registers for Place, Governance and Resources have been reviewed and actions identified to update and/or close out of date active risks.
- Training has been provided to Senior Business Support Officers enabling them to support Directorates in updating risks on JCAD (the Council's risk management software).
- Both the Joint Health and Safety Committee and the Civil Contingencies Board have requested and received risk reports in their respective areas and actions were identified to ensure risks were updated or closed if no longer applicable.
- Separate risk registers are being coordinated through the Head of Risk for the Council's response to Covid-19 and its recovery and reconstitution, updates are reported regularly to the Corporate Leadership Team. The bespoke risk registers are available to the Committee Members upon request.
- The review of the Council risk management software (JCAD) has been put on hold until 2021 due to financial and other resource constraints.

### **Recommendation**

- 3.5 The Committee is recommended to **note** the progress made against the Annual Action Plan for Risk Management.

### **Directorate Risk Register Deep Dives**

- 3.6 The Committee has previously requested the opportunity to review one Directorate level risk register at each of its meetings. These reviews will begin from January 2021.

### **Recommendation**

- 3.7 The Committee should decide which Directorate level risk register the Committee would like to review at its meeting in January 2021.

## **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no specific equalities implications.

## **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 The Accounts and Audit Regulations 2015 require authorities to ensure they have a sound system of internal control which:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.

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

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

## **7. COMMENTS OF LEGAL SERVICES**

7.1 The management of risk has a direct impact on the Council's ability to deliver its functions in a manner which promotes economy efficiency and effectiveness. Therefore, the consideration of this report demonstrates the Council's compliance with its Best Value Duty.

7.2 The Council is also legally required under Regulation 3 of the Accounts and Audit Regulations 2015 to ensure that it has a sound system of internal control facilitating the effective exercise of the Council's functions. This includes arrangements for the management of risk and an effective system of internal audit to evaluate the effectiveness of its risks management, control and governance processes, taking into account public sector internal auditing standards and guidance. This report also demonstrates compliance with these legal duties.

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

### **Linked Report**

- None.

### **Appendices**

- Appendix A – Corporate Risk Register

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

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

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

- None.

**Officer contact details for documents:**

Paul Rock, Head of Internal Audit, Fraud and Risk

Tel: 07562 431830. Email: [paul.rock@towerhamlets.gov.uk](mailto:paul.rock@towerhamlets.gov.uk)

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## Detailed Risk Report (incl Control Measure Target Date)

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
CSD0016	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency. There is an on-going need to ensure that services to all vulnerable children and young people have focus on safeguarding and a prevention of harm.	Our most recent Ofsted report (June 2019) rates Children's Social Care and Early Help service's as "Good". However, there will be a need to regularly review and scrutinise the quality of services for vulnerable young people. This scrutiny and challenge will need to have a focus on; <ul style="list-style-type: none"> <li>Overall management oversight and quality of supervision.</li> <li>Compliance with core statutory and local requirements.</li> <li>Adherence to key safeguarding thresholds.</li> <li>Regular assessments of cases, and emerging /changing risks.</li> <li>Strong planning for children, with regular reviews to avoid drift and delay.</li> <li>Maintaining strong quality assurance and auditing mechanisms.</li> </ul>	<ul style="list-style-type: none"> <li>Harm to individual Children and young people being left in situations of risk and or unassisted harm.</li> <li>Poorer than expected outcomes for a child.</li> <li>Poor audit/review findings</li> <li>Reputational damage to the council.</li> <li>Poor Staff development and competence.</li> <li>Poor Quality assurance and Performance Management</li> <li>Loss of experienced professional staff.</li> <li>Potential for legal proceedings against the council leading to financial loss</li> </ul>	<p>Monthly meeting of the Continuous Improvement Board, chaired by the DCS, and involving the Lead member.</p> <p>New multi-agency Children's Safeguarding Partnership. Arrangements are over-seen by the independent Scrutineer.</p> <p>Monthly service level performance meetings held by the Divisional Director.</p> <p>An established Audit process which is undertaken 5 x times each year.</p> <p>Practice Week which is held twice a year (May and November) which involves all Corporate Directors and members.</p>	5	5	25	4	4	16	James Thomas	People Are Aspirational, Independent And Have Equal Access To Opportunities.

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
COVID0001	Risk to essential service delivery including the protection of staff, stakeholders and continued service delivery (critical) as a result of the current coronavirus pandemic.	Classification as a pandemic by the world health organisation. Increase in the number of people infected by the virus.	Death to members of the public, service users and staff. NHS and hospitals unable to cater for increase in population requiring hospitalisation and intensive care. Collapse of public services including local government, significant down turn in the economy.		4	5	20	<p>Pandemic Flu Plan and Emergency Borough Command Structure</p> <p>The Council has instigated it's Multi Agency Pandemic Influenza Plan and the emergency Borough Command Structure. The Gold and Silver Groups are operating as expected, although scaled down at present. Risks have been identified and are being managed and reviewed at Gold and Silver meetings.</p> <p><b>Will Tuckley</b></p> <p><b><u>Required Control Measure</u></b></p> <p><b>Target Date:</b> <b>31/12/2020</b></p> <p>Recovery and Reconstitution</p> <p>The Council is beginning it's recovery phase. Appropriate risk assessments have taken place with particular emphasis on risks for staff and residents in Tower Hamlets. Financial stability and plans are also being finalised.</p> <p><b>Will Tuckley</b></p> <p><b><u>Required Control Measure</u></b></p> <p><b>Target Date:</b> <b>31/12/2020</b></p>	4	3	12	Will Tuckley	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To		
RS0056	The Council may significantly overspend its budget, fail to deliver savings and continue to rely on dwindling reserves. As of July 2020 there is a potential budget gap of £12.9m for 2021-22 with a further £26.3m in 2022/23.	COVID-19 Virus outbreak and associated increase in costs. Loss of income in particular council tax, business rates and leisure events. Poor budget management Failure to deliver savings Excessive agency costs.	Significant financial losses, overspent budgets, further drawn down on reserves.	Financial Actions Increased focus on budget management. Budget Managers Handbook Issued. All budget managers directed by CLT to remain in budget. High risk budgets are being reviewed by the Corporate Director Resources or the Divisional Director of Finance, Procurement and Audit. Redoubled efforts to deliver previously agreed savings proposals.	5	4	20	<p>Financial Measures</p> <p>CLT and SLT are preparing new proposals to deliver £30m of savings across 9 themes for presentation to Members:</p> <ol style="list-style-type: none"> <li>1. New ways of working from the pandemic</li> <li>2. Managing demand by enabling people to help themselves</li> <li>3. Streamlining our back office</li> <li>4. Greater use of community assets</li> <li>5. Digital</li> <li>6. Buildings</li> </ol>	4	3	12	Neville Murton			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
								<p>7. Non- statutory services 8. Joining up services 9. Headcount reductions</p> <p>In addition, the following actions are being taken:</p> <p>An immediate recruitment freeze – no further recruitment should be taken without specific approval from Director of HR or the Corporate Director of Resources; in-flight recruitment should be reviewed and can continue provided only that a permanent budget is available for the post.</p> <p>An immediate freeze on additional agency placements – as above no additional contracts should be placed with Adecco without the express authorisation from Director of HR or the Corporate Director of Resources.</p> <p>A review of opportunities for re-deployment of staff into vacant permanent posts in order to manage down our overall agency costs bill.</p> <p>An urgent review of Agency staff contracts</p> <p>A Review of overall staffing levels taking into account defined essential services</p> <p>An enhanced requirement for the delivery of agreed savings – in particular the need to recommence and reinvigorate previously agreed savings including reorganisations and</p>							

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
						restructures.  A review of all posts currently funded through reserves – with an expectation that they will be ceased and the work reallocated. <b>Kevin Bartle</b>  <b><u>Required Control Measure</u></b> <b>Target Date:</b> <b>31/03/2021</b>			
RSB0020	A balanced budget has been approved for the financial year 2020/2021 and approved by Council in February 2020. There is a risk that additional savings are required to respond to major variances in the financial planning assumptions which underpin the basis of the Medium Term Financial Plan.	Failure to deliver savings targets Lower than anticipated Grant settlement and/or higher inflationary cost pressures Higher levels of service demand as a result of the general economic climate Business Rates income continuing to fall with significant losses through vacant assessments and VOA valuation reducing to Zero RV. Project Management Team identifies delivery failures of significant programmes and projects such as HR ,Finance, ICT. Population Growth and impact of Welfare Reform Agenda	New/alternative savings will need to be identified and actioned to ensure a balanced budget over the medium term planning period and there may also be a larger than planned draw-down on reserves. Negative impact on council services Increased pressure on delivery of statutory and priority services New burdens from central government and failure to deliver strategic plan priorities		4 4 16	Mayor and Lead Members engaged in the process  Regular meetings with the Mayor and Lead Members provides a forum for savings propositions to be considered and developed. <b>Kevin Bartle</b>  <b><u>Required Control Measure</u></b> <b>Target Date:</b> <b>31/03/2021</b>	2 2 4	Kevin Bartle	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	There is a failure of one or more of the controls which fails to identify the degree of risk to a vulnerable adult. Poor practice and inadequate management oversight. Failure of quality control systems. Service user fails to work to agreed partnership / agency arrangements. Poor communication and partnership work. Poor resourcing of service areas against increased demand. Local authority contracted out service do not have sufficiently robust safeguarding arrangements.	Harm to an individual. Reputational damage to the Council. Potential for legal proceedings against the council leading to financial loss. Loss of confidence in safeguarding capability.	Revised safeguarding procedures introduced from care act implemented. Robust safeguarding procedures in place. Oversight through management reporting Social workers have 1:1 supervision monthly on thier casework including safeguarding cases. The PSMT meet monthly to review and monitor Adult Safeguarding casework, partucularly serrous cases and develop and implement action plans and lessons learnt. Information campaigns to raise awareness of safeguarding oversight from safeguarding adult's board A sub group of the Safeboarding board leads on publicity and promotion of safeguarding 5 year (2019 – 2024) Safeguarding Adults Board Strategy The actions within the SAB strategy aim to mitigate the risks associated with safeguarding. Safeguarding issues as part of contract management procedures . Target operating module as part of the care act implemented. This includes key worker role assigned. Signs of safety framework implemented. This framework helps identify the risks in a strategic manner. CQC care commission embargo list used. This list is available from the CQC highlighting all providers where the CQC has raised concerns.	3	5	15	<u>Required Control Measure</u> <u>Target Date:</u>			2	4	8	Denise Radley	People Are Aspirational, Independent And Have Equal Access To Opportunities.

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>Failed visit policy and procedures in place.</p> <p>Introduction of safeguarding Star Chamber for front line teams</p> <p>discharge policy in consultation with Bart's</p>								
ORG0026	There is a risk the Council will be unable to deliver critical and essential services.	<p>Cyber Security Attack e.g. ransomware, denial of service, phishing, malware or an active attack exploiting network security vulnerabilities.</p> <p>Industrial dispute</p> <p>Pandemic Flu or similar widespread infections/diseases.</p> <p>Natural disasters (fire, flood etc)</p> <p>Failure of critical third party provided services.</p> <p>Loss of regional infrastructure e.g. utilities</p>	<p>Failure to deliver critical services</p> <p>Death of serious injury e.g. to staff, members of the public or service users</p> <p>Failure to comply with statutory duties or other legal responsibilities</p> <p>Financial loss</p>		3	5	15	3	3	9	Will Tuckley	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
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.	Accountability for fire safety is not correctly designated, communicated and understood Fire Risk Assessments: * are incomplete, inadequate or not carried out in accordance with the latest advice from DCLG and fire and rescue services * are not published in accordance with the Mayor's commitment * do not include the time limits on recommendations Fire Risk Assessment Action Plans: are not produced and/or delivered within appropriate timescales Limited current contractor supplier chain for scale of identified fire safety works Constrained and limited ability for Tower Hamlets Homes to complete all the Fire Risk Assessment work identified in the new round of comprehensive Fire Risk Assessments Unable to justify block prioritisation policy for programmes of Fire Risk Assessment works Leaseholders do not fit fire rated flat entry doors (ALL flat entrance doors in a block will need to be compliant to achieve	Loss of life Loss of housing stock Lobbying and/or protesting The council and local housing management organisations lose the trust of residents Individual prosecution under a number of Acts of Parliament and common law offences with potential penalties including unlimited fines and a maximum of life imprisonment Corporate prosecution with potential penalties of unlimited fines, remedial orders and publicity orders Adverse national media coverage Uninsured financial loss Council perceived as not having fulfilled statutory duty to keep local housing conditions under review	Tower Hamlets Homes (THH) Fire Safety Programme progress reported to and monitored by THH and Council Bi-Monthly Operational Meeting - Standing Agenda Item Quarterly Strategic Meeting - Standing Agenda Item Quarterly Mayoral Meeting - Standing Agenda Item Capital Programme Board Council client team to review and agree timetable for publishing remaining Fire Risks Assessments  Ensure Fire Risk Assessments are carried out annually or (after works) on ALL council owned housing blocks Capital Programme Board - This is specifically to include blocks who have not yet had programmed work completed	3	5	15	1	5	5	Ann Sutcliffe	A Borough That Our Residents Are Proud Of And Love To Live In.

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
		good fire compartmentalisation and a 'Tolerable' fire safety standard) Fire safety measures are uncoordinated							
ASD0038	There is a risk that the Council will fail to comply with its obligations in relation to the Protection of Freedoms Act 2012 and therefore failing to meet the Code of Practice compiled under that Act by the Home Office Surveillance Camera Commissioner (SCC) for the operation of video surveillance systems. The Council may also fail to meet the requirements of the Data Protection Act 2018 related to the use and management of video surveillance systems.	A lack of appropriate governance, policy and standard operating procedures. No asset registers for surveillance systems. Out of date or missing Data Processing Impact Assessments No SLAs with major stakeholders such as the Police and Transport for London A lack of compliance with agreed governance, policy and procedures. An inspection by the Surveillance Camera Commissioner. An inspection by the Information Commissioner. A freedom of information request.	Financial, legal and reputational.		3 4 12	Improvement Action Plan Completion  SPP have been commissioned by the Senior Responsible Officer to draft an action plan and ensure we are compliant with the regulations. SPP will also draft the Council policies and procedures. All the client departments such as Parks, FM, Parking and CCTV will need to ensure that they implement the action plan, policies and procedures. The action plan will be monitored by the Information Governance Board. Each client department to nominate a lead, a Single Point of Contact (SPOC) who will be responsible for all operational matters relating to surveillance cameras and they will act as the main contact point for anything related to surveillance camera systems. They SPOCs will support the SRO regarding compliance with Protection of Freedoms Act. <b>Ann Corbett</b> <b><u>Required Control Measure</u></b> <b>Target Date:</b> <b>31/12/2020</b>	2 2 4	Denise Radley	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
COVID000 2	Risk that inequalities in attainment and well-being between disadvantaged children and other children will increase as a consequence of prolonged period out of school.	Lock down and partial opening of schools to key worker and vulnerable children only March – July 2020 Post 1st September - Confirmed cases of Covid-19 infection and /or isolation of school staff and pupils following contact with a confirmed case of Covid-19 - Potential school closure on infection control grounds and or business continuity grounds	In the short term, pupils not achieving their educational potential and missing out on opportunities for personal, social and physical development Children and young people identified as 'vulnerable' may be particularly at risk when out of school. Large groups of young people (secondary schools operate year groups as bubbles) out of school isolating potentially not staying at home but congregating outside	Infection control measures, partnership working, lap to scheme & additional safeguarding guidance. All schools advised and supported to put rigorous infection control measures in place inside the school and to manage parents dropping off and picking up primary pupils outside schools. Health and Safety guidance is regularly updated. All work is delivered through a partnership between council officers and school workforce unions. Schools have audited families' IT capacity to identify pupils/families that are unable to access on line learning and put other provision in place Roll out of the government's lap top scheme, providing laptops for all children and young people with a social work and those leaving case, as well as vulnerable pupils in year 10 at school. Support for IT equipment to be purchased for pupils through the business community. Schools purchasing IT equipment for pupils. Additional safeguarding guidance issued to schools about pupils who are isolating. Information sharing across the council and with police regarding schools with groups of pupils who are isolating.	4	3	12	Summer programme  Proposals under development in partnership with schools, including additional support for schools and children in September; broader summer programme for children moving from year 6 to year 7.  Update 8 June 2020: Expansion of Year 7 transition programme underway. Planning underway with both primary and secondary schools to plan for a response to issues emerging when pupils return to school. Information gathering exercise planned with schools to understand current level of support and good practice as a basis for ensuring a consistent offer across the borough. <b>Christine McInnes</b> <b><u>Required Control Measure</u></b> <b>Target Date:</b> <b>31/03/2021</b>	3	3	9	James Thomas			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
LPGSE001 2	The Council may fail to deliver the strategic plan's priorities and outcomes and/or meet its responsibilities generally to the community.	COVID-19 virus pandemic including local outbreaks leading to a significant reduction in staffing and financial resources and the diversion of remaining staff/resources to deliver essential/critical services and/or new operational activity such as test and trace.	Failure to meet commitments, achieve strategic objectives and discharge responsibilities to the community.		3	4	12	Strategic Plan Review  A revised strategic plan was agreed by Cabinet in July 2020 which included updated high level actions and priorities designed to move the Council forward. Business planning and target setting is underway to support delivery of the strategic plan. <b>Sharon Godman</b>  <b><u>Required Control Measure</u></b> <b><u>Target Date:</u></b> <b>30/09/2020</b>  Medium Term Financial Strategy  The MTFS has been reviewed and updated and agreed at Cabinet in July 2020. CLT are preparing proposals to save £30million for presentation to Cabinet. <b>Kevin Bartle</b>  <b><u>Required Control Measure</u></b> <b><u>Target Date:</u></b> <b>30/10/2020</b>	3	3	9	Will Tuckley			
RSB0023	Statement of Accounts drafted late or qualified opinion received Objections to the accounts	Inaccurate fixed assets on balance sheet identified in audit review Incomplete bank reconciliation Incomplete reconciliation of debtors/creditors Accounts disclosures incomplete / incorrect	Qualified opinion on statement of accounts		2	4	8	Process put in place to minimise risk  Training to be provided annually on all aspects of the final accounts process to Budget Managers and Finance Staff, with a particular emphasis on accruals for debtors and creditors, recharge processes and accounting for grants.  All control account reconciliations, not just Bank Reconciliations, to be recorded on a central list and completion actively monitored in year with both preparers and reviewers identified. Library of procedure notes to be established and	2	2	4	Neville Murton	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
									<p>reviewed on a regular basis.</p> <p>All holding accounts to be identified and responsibilities assigned, accounts no longer needed to be closed down. Central list and procedure notes to be produced alongside control accounts.</p> <p>Process for internal recharges to be reviewed and new coding structure introduced to ensure internal transactions can be properly eliminated in the accounts.</p> <p>Usage of the Fixed Assets Register software to be developed.</p> <p>Template Working Papers to be developed for all key notes in the Statement of Accounts.</p> <p>Detailed timetable to be produced and used for active monitoring of progress.</p> <p><b>Tim Harlock</b></p> <p><b><u>Required Control Measure</u></b></p> <p><b><u>Target Date:</u></b> <b>31/03/2021</b></p>						

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Non-Executive Report of the:  <b>Audit Committee</b>  <b>12 November 2020</b>	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Neville Murton, Corporate Director, Resources	<b>Classification:</b>  Unrestricted
<b>Treasury Management Mid-year Report for 2020-21</b>	

Originating Officer(s)	Pearl Emovon – Interim Treasury Manager
Wards affected	All Wards

## Summary

**This Report is produced in accordance with the CIPFA Treasury Management Code of Practice**

The Treasury Management Strategy Statement and the Treasury Prudential Indicators for 2020-21 were approved by Council on 19th February 2020 as required by the Local Government Act 2003. This report covers the period 1st April 2020 to 30th September 2020.

**Investment returns fluctuate in line with the Bank of England base rate. The base rate has maintained at 0.10%.**

The Council has substantial sums of money invested and is therefore exposed to financial risks including the loss of invested funds and the impact of changing interest rates and inflation. The successful identification, monitoring and control of risk are therefore key to the Council's treasury management strategy.

**The revised investment income budget set for 2020-21 is £2.3m and we are broadly on target.**

To date £76m has been invested in pooled funds. Equity markets fell very sharply at the end of the 2019-20 financial year due to the impact of Covid-19 on the economy, resulting in a significant fall in value of pooled funds. This however improved from the year-end position of £69.4m to £73.1m at the end of September 2020.

**From the Benchmarking exercise a total return of -0.01% was achieved for the reporting period, which was 0.01% below the average for similar LAs return and 0.45% higher than the average return for all LAs.**

The Sterling Overnight Index Average (SONIA) has replaced the London Interbank Bid Rate (LIBID) as the new performance measure for the Council's investment returns. For this reporting period the investments portfolio returned -0.01%. This was slightly below the benchmarking average of 0.00%. More information on this can be found in section 3.6.

The average credit worthiness of investments has maintained at –AA and the average credit score is 4.05 for this reporting period, signifying LBTH portfolio credit risk is lower than the benchmarking average of 4.33.

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**Prudential Indicators (PI) and Treasury Management (TM) indicators have been fully complied with.**

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Over the reporting period, all treasury management (TM) activities were performed in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy Statement.

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## **Recommendations:**

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for the half year ending 30 September 2020; and
- note the Council's investments as set out in Appendix 1. The balance outstanding as at 30 September 2020 was £180.90m.

### **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 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 was to deviate from those requirements, there would need to be justifiable reason for doing so.

### **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. 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.

3.3 The Treasury Management Strategy Statement, Investment Strategy and Capital Strategy (incorporating the Minimum Revenue Provision Policy Statement) reports were included in the Budget Pack that was presented to Council on 19th February 2020.

### 3.4 **ECONOMIC OUTLOOK AND INTEREST RATE FORECAST FROM ARLINGCLOSE**

3.4.1 The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, coronavirus has not been suppressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and distributed.

3.4.2 The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in this quarter.

3.4.3 The scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in the UK monthly GDP and PMI data, even before the latest restrictions.

3.4.4 This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Base Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have already priced in a chance of a negative Bank Rate.

3.4.5 Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations of potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium-term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

3.4.6 Arlingclose expects Bank Rate to remain at the current level of 0.10%.

3.4.7 We expect additional monetary loosening in the future, most likely through further financial asset purchases. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.

3.4.8 Gilt yields will remain very low in the medium-term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out a negative Bank Rate or growth/inflation prospects improve.

### 3.5 TREASURY MANAGEMENT STRATEGY 2020-21

3.5.1 The Treasury Management Strategy Statement was approved on 19th February 2020 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2020-21 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.

3.5.2 The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

3.5.3 The treasury management position as at 30<sup>th</sup> September 2020 is shown in table 2 below.

**Table 2: Treasury Management Summary**

	31.03.20 Balance £m	Movement over the Year £m	30.09.20 Balance £m	30.09.20 Rate %
Long-term borrowing	72.289	-	72.289	3.12
Short-term borrowing	-	-	-	-
<b>Total borrowing</b>	<b>72.289</b>	<b>-</b>	<b>72.289</b>	<b>3.12</b>
Long-term investments	71.000	(10.000)	61.000	
Short-term investments	70.000	(30.000)	40.000	
Cash and cash equivalents	116.750	(36.850)	79.900	
<b>Total investments</b>	<b>257.750</b>	<b>(76.850)</b>	<b>180.900</b>	<b>1.40</b>
<b>Net investments</b>	<b>185.461</b>	<b>(76.850)</b>	<b>108.611</b>	

#### **Borrowing Strategy during the period**

3.5.4 The Council held £72.289m of external loans as at 30th September 2020.

**Table 3: Borrowing Position**

	31.03.20 Balance £m	Movement £m	30.09.20 Balance £m	30.09.20 Rate %	30.09.20 WAM* years
Public Works Loan Board	54.789	-	54.789	2.72	45
Banks (fixed-term)	17.500	-	17.500	4.34	57
<b>Total borrowing</b>	<b>72.289</b>	<b>-</b>	<b>72.289</b>	<b>3.12</b>	<b>48</b>

\*Weighted average maturity

3.5.5 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.

### **Borrowing Update**

- 3.5.6 On 9<sup>th</sup> October 2019, the PWLB (Public Works Loan Board) raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available, however the financial strength of individual authorities will be scrutinised by investors and commercial lenders.
- 3.5.7 The Chancellor's March 2020 Budget statement included significant changes to the PWLB policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields (the value of this discount is 1% below the rate at which the authority usually borrows from the PWLB). £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% has been made available to support specific local authority infrastructure projects for England, Scotland and Wales, for which there is a bidding process.
- 3.5.8 The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities from borrowing large sums in specific circumstances. The consultation closed on 30<sup>th</sup> September and the Council sent a response.
- 3.5.9 Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020 and Lancashire County Council is the sole borrower and guarantor in both instances. The Council will have to ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and be satisfied with them before any borrowing through the MBA.
- 3.5.10 The Council will work closely with Arlingclose in future to understand the implications for the Council and its borrowing need.

### **Investment Activity**

- 3.5.11 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £344m to £181m due to timing differences between income and expenditure. The investment position at this reporting period is shown in table 4 below.
- 3.5.12 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.

### **Investments Outstanding & Maturity Structure**

3.5.13 The table below shows the amount of investments outstanding at the end of September 2020, split according to the financial sector.

3.5.14 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. Given the increasing risk and falling returns from short-term unsecured bank investments, the Council has diversified into more secure and/or higher yielding asset classes by allocating £100m for strategic pooled investments and currently £76m has been invested as shown in Table 4 below.

**Table 4 Outstanding Investments by Financial Sector**

Financial Sector	31.03.20 Balance £m	Movement over the Period £m	30.09.20 Balance £m	% Portfolio
UK Banks	20.000	(20.000)	0.000	
UK Building Societies	-	-	-	
Government (incl. local authorities)	104.000	(34.000)	70.000	38.70
Oversea Banks	-	-	-	
Money Market Funds	57.750	(22.850)	34.900	19.29
Pooled Investment Funds:	76.000	-	76.000	42.01
<i>Cash plus funds</i>	20.000	-	20.000	
<i>Short-dated bond funds</i>	18.000	-	18.000	
<i>Strategic bond funds</i>	9.000	-	5.000	
<i>Equity Income funds</i>	13.000	-	6.000	
<i>Property funds</i>	5.000	-	5.000	
<i>Multi asset income funds</i>	11.000	-	11.000	
<b>Total investments</b>	<b>257.750</b>	<b>(76.850)</b>	<b>180.900</b>	

## Performance Report

3.5.15 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.

**Table 5: Investment performance for financial year to 30<sup>th</sup> September 2020**

Period	LBTH Internal Return	External Fund Return	LBTH Total Return	Benchmark Return	Over/(Under) Performance
<b>Full Year 2019-20</b>	0.87%	(4.90%)	(0.73%)	(0.41%)	(0.32%)
<b>Quarter 1</b>	0.56%	(1.03%)	0.07%	(0.02%)	0.09%
<b>Mid-Year 2020-21</b>	0.60%	(0.90%)	(0.01%)	0.00%	(0.01%)

- 3.5.16 In 2018-19, the Council invested in bond, equity, multi-asset and property funds (£76m) to increase the level of investment income generated, in line with approvals given in the Treasury Management Strategy and Medium Term Financial Strategy (MTFS). These pooled funds, despite decent income returns in 2019-20, may post low total return for 2020-21 due to the capital component of total returns which is impacted by the Covid-19 economic situation. The risk profile of these investments was discussed with the Committee as, since the objective is to achieve higher returns, there is the expectation and need to accept higher levels of risk (market volatility).
- 3.5.17 Lower official interest rates have lowered investment returns from cash assets that can be used in lieu of borrowing. Continued downward pressure on the short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers temporarily lowered their fees. At this stage, net negative returns are not the central case for most MMF managers over the short-term, and fee waivers should maintain positive net yields, though the possibility cannot be ruled out.
- 3.5.18 In light of the pandemic crisis and the likelihood of unexpected calls on cash flow, the Council kept more cash available at very short notice than normal. Liquid cash was therefore diversified over a few counterparties and Money Market Funds to manage both credit and liquidity risks.
- 3.5.19 As the Council's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down in months, quarters and even years; but with the confidence that over a three to five-year period, total returns will exceed cash interest rates.
- 3.5.20 In 2020-21 the Council expects to receive significantly lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019-20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of Covid-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral. The Council's budgeted investment income has therefore been revised to £2.3m, based on 91 basis points (0.91%) on an average cash balance of £250m.

### 3.6 Investment Benchmarking

- 3.6.1 LBTH participates in a benchmarking club being run by Arlingclose to enable officers to compare the Council's treasury management and investment returns against those of similar authorities. The model considers a combination of credit, duration and returns achieved over the duration. It also includes data from 128 local authorities. The progression of risk and return metrics are shown in Table 6 below.

**Table 6: Investment Benchmarking**

	Tower Hamlets		15 London & Metropolitan Average	128 Local Authorities (LAs) Average
	31 March 2020	30 Sept 2020		
Internal Investments	£181.80m	£104.90m	£70.90m	£74.10m

	Tower Hamlets		15 London & Metropolitan Average	128 Local Authorities (LAs) Average
	31 March 2020	30 Sept 2020		
External Funds	<b>£69.40m</b>	<b>£73.10m</b>	<b>£11.90m</b>	<b>£13.60m</b>
Average Credit Score	3.65	4.05	4.33	4.16
Average Credit Rating	AA-	AA-	AA-	AA-
Number of Counterparties & Funds	30	25	10	13
Proportion Exposed to Bail-in	40%	33%	75%	64%
Proportion Available within 7 days	35%	25%	66%	51%
Proportion Available within 100 days	62%	48%	78%	70%
Average Days to Maturity	108	102	71	18
Internal Investment Return	<b>0.87%</b>	<b>0.60%</b>	<b>0.31%</b>	<b>0.27%</b>
External Funds - Income Return	<b>2.75%</b>	<b>2.55%</b>	<b>2.80%</b>	<b>3.45%</b>
<b>Total Investments - Total Return</b>	<b>-0.73%</b>	<b>-0.01%</b>	<b>0.00%</b>	<b>-0.46%</b>

3.6.2 As at 30th September 2020 the LBTH investment portfolio delivered 0.60% for internal investment management, outperforming the benchmarking average of 0.31% and also the average return for 128 LAs of 0.27%, whilst for total return on total investments LBTH generated -0.01%, marginally underperforming the average return for 15 London and Metropolitan Boroughs with return of 0.00% by 0.01bps, and outperforming the average return for 128 LAs with an average return of -0.46% by 27bps.

3.6.3 Our investment portfolio average credit score of 4.05 is better than the benchmark average of 4.33, signifying that LBTH's portfolio credit risk is lower than that of the average. Our investment portfolio credit worthiness was maintained at AA- and is in line with the benchmark average.

3.6.4 The proportion of the portfolio investments exposed to bail-in is 33%, this level is significantly lower than the benchmark average of 75%. This means we have taken less bail-in risk on our investments compared to the average. Bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings.

3.6.5 It can also be seen from the above table that the number of counterparties the Council had as at 30<sup>th</sup> September was 25, which is more than double the benchmark average of 10. This demonstrates the Council reduces the counterparty risk and concentration risk of the investments portfolio significantly through diversification by investing with many quality institutions and local authorities. The lower average credit score compared to others also reflects the lower risk of lending to Local Authorities.

### 3.7 Compliance Report

3.7.1 All treasury management activities undertaken from the beginning of the financial year 2020-21 to this reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

3.7.2 Compliance with the authorised limit and operational boundary for external debt is set out in Table 7 below.

**Table 7: Debt Limits**

	<b>31.03.20 Actual £m</b>	<b>2020-21 Forecast £m</b>	<b>2020-21 Operational Boundary £m</b>	<b>2020-21 Authorised Limit £m</b>	<b>Complied</b>
Borrowing	72.289	72.289	525.721	540.721	✓
PFI & finance leases	58.650	54.453	54.453	69.453	✓
<b>Total debt</b>	<b>130.939</b>	<b>126.742</b>	<b>580.174</b>	<b>610.174</b>	✓

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

3.7.4 **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.

	<b>31.03.20 Actual</b>	<b>30.09.20 Actual</b>	<b>2019-21 Target</b>	<b>Complied</b>
Portfolio average credit rating	AA-	AA-	A	✓

3.7.5 **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.

	<b>31.03.20 Actual</b>	<b>30.09.20 Actual</b>	<b>2019-21 Target</b>	<b>Complied</b>
Total cash available within [3] months	£156m	£63m	£50m	✓
Total sum borrowed in past [3] months without prior notice	Nil	Nil	Nil	✓

3.7.6 **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:

	<b>30.09.20 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 months	£0.755m	50%	0%	✓
12 months and within 24 months	£1.662m	50%	0%	✓
24 months and within 5 years	£1.163m	50%	0%	✓
5 years and within 10 years	-	75%	0%	✓
10 years and above	£51.210m	100%	0%	✓

3.7.7 **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:

	<b>30.09.20 Actual</b>	<b>2020-21 Limit</b>	<b>Complied</b>
Principal invested beyond year end	£111m	£150m	✓

### 3.8 **Non-Treasury Investments**

3.8.1 The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. For English Authorities, this is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

3.8.2 The Council currently does not have such investments.

## 4. **EQUALITIES IMPLICATIONS**

4.1 There are no equality implications directly arising from this report.

## 5. **OTHER STATUTORY IMPLICATIONS**

5.1 This section of the report is used to highlight further specific statutory implications that are wither not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications include:

- Best Value implications
- Consultations
- Environmental (including air quality)
- Risk management
- Crime Reduction
- Safeguarding
- Data protection/ Privacy Impact Assessment

### **Best Value Implications**

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.

Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

## **Risk Management**

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

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.

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

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 Arlingclose who specialise in local authorities' treasury issues.

## **6 COMMENTS OF THE CHIEF FINANCE OFFICER**

6.1 This report provides an update on Treasury Management activities from April 2020 to September 2020.

6.2 As at the 30th September 2020 the Council had an outstanding investments portfolio of £180.9m. The revised annual investment income budget is £2.3m and current estimates indicate that this is achievable.

## **7. LEGAL COMMENTS**

7.1 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.

7.2 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.

7.3 This noting report of the Corporate Director of Resources advises the Committee of the Council's borrowing and investment activities for the half-year ending 30th September 2020 and is consistent with the key principles expressed in the Treasury Management Code. The Corporate Director of 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.

7.4 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).

## **APPENDICES**

Appendix 1 – Investments Outstanding at 30th September 2020

Appendix 2 – 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 2 2020-21 and Treasury Management Mid-Year Report Template

#### **Brief description of “background papers’**

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

*Pearl Emovon, x0997, Mulberry Place*

## Appendix 1: Investments Outstanding as at 30<sup>th</sup> September 2020

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate	
Overnight	Aberdeen MMF		On demand	20.000	0.08%	
	Aviva MMF		On demand	14.900	0.06%	
	<b>SUB TOTAL</b>			<b>34.900</b>		
Long-Term (Strategic)	CCLA Diversified Income Fund		POOLED	5.000		
	CCLA Local Authorities Property Fund		POOLED	5.000		
	Payden & Rygel Absolute Return Bond Funds		POOLED	10.000		
	Columbia Threadneedle Global Equity Income Fund		POOLED	3.000		
	Columbia Threadneedle Strategic Bond Fund		POOLED	5.000		
	Columbia Threadneedle Sterling Short-Dated Corporate Bond Fund		POOLED	8.000		
	Investec, Diversified Income Fund		POOLED	6.000		
	Schroder Income Maximiser Fund		POOLED	3.000		
	M & G Global Dividend Fund (POOLED)			2.000		
	M & G Optimal Income Fund (POOLED)			2.000		
	M & G UK Income Distribution Fund (POOLED)			3.000		
	M & G Strategic Corporate Bond Fund (POOLED)			4.000		
		<b>SUB TOTAL</b>			<b>56.000</b>	
	< 1 Month	NIL			0.000	
	<b>SUB TOTAL</b>			<b>0.000</b>		
1 - 3 Months	Payden & Rygel Sterling Reserve Fund (POOLED)		POOLED	10.000		
	Royal London Enhanced Cash Plus Y (POOLED)		POOLED	10.000		
	Lancashire County Council	10/05/2019	10/11/2020	20.000	1.30%	
	Elmbridge Borough Council	30/04/2020	02/11/2020	5.000	0.90%	
	<b>SUB TOTAL</b>			<b>45.000</b>		
3 - 6 Months	Plymouth City Council	07/07/2020	07/01/2021	5.000	0.35%	
	Kingston Upon Hull City Council	25/08/2020	25/02/2021	5.000	0.20%	
	<b>SUB TOTAL</b>			<b>10.000</b>		
6 - 9 Months	Guildford Borough Council	10/07/2020	28/05/2020	5.000	0.30%	
	<b>SUB TOTAL</b>			<b>5.000</b>		
9 – 12 Months	Dumfries & Galloway	20/08/2018	20/08/2021	5.000	1.50%	
	Slough Borough Council	14/02/2020	13/08/2021	5.000	0.30%	
	Police & Crime Commissioners for West Mercia	28/09/2020	12/07/2021	10.000	0.30%	
	<b>SUB TOTAL</b>			<b>20.000</b>		
> 12 Months	Middlesbrough Council	26/01/20	27/01/2022	10.000	1.35%	
	<b>SUB TOTAL</b>			<b>10.000</b>		
	<b>TOTAL</b>			<b>180.900</b>		

## **Appendix 2 – Glossary**

Asset Life	How long an asset, e.g. a Council building is likely to last.
Bail-in	A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings rather than the government or taxpayers.
Bail-out	A bailout is a colloquial term for the provision of financial help to a corporation or country which otherwise would be on the brink of failure or bankruptcy.
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 MMFs.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.
Consumer Prices Index &	The main inflation rate used in the UK is the CPI. The Chancellor of

Retail Prices Index (CPI & RPI)	the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programmes 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 is normally the cheapest source of long-term borrowing for LAs.
Quantitative Easing (QE)	Quantitative easing (QE), also known as large-scale asset purchases, is an expansionary monetary policy whereby a central bank buys predetermined amounts of government bonds or other financial assets in order to stimulate the economy.
SONIA	Sterling Overnight Indexed Average
Specified Investments	Investments that meet the Council's high credit quality criteria and are 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 is for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council.

Non-Executive Report of the:  <b>Audit Committee</b>  <b>12 November 2020</b>	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Neville Murton, Corporate Director, Resources	<b>Classification:</b>  Unrestricted
<b>Treasury Management Report for 2019-20</b>	

Originating Officer(s)	Pearl Emovon – Interim Treasury Manager
Wards affected	All Wards

## Summary

**This report is produced in accordance with the CIPFA Treasury Management Code of Practice** The Treasury Management Strategy Statement and the Treasury Prudential Indicators for 2019-20 were approved by the Council on 20<sup>th</sup> February 2019, as required by the Local Government Act 2003. This report covers the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020.

**Investment returns fluctuate in line with the Bank of England base rate. The base rate is currently 0.1%** The Council has substantial sums of money invested and is therefore exposed to financial risks including the loss of invested funds and the impact of changing interest rates and inflation. The successful identification, monitoring and control of risk are therefore key to the Council's treasury management strategy.

**The investment income budget set for 2019-20 was £4.0m, with actual income received of £5.4m.** To date £76m has been invested in pooled funds. Equity markets fell very sharply at the end of the financial year, resulting in a significant fall in the value of pooled funds to £69.4m.

**A return of -0.73% overall was achieved in 2019-20 which was 0.32 bps below the average for similar LAs, and 0.39bps lower than the -0.34% average for all LAs return** The Sterling Overnight Index Average (SONIA) replaces the London Interbank Bid Rate (LIBID) as the new performance measure for the Council's investment returns. This is due to the widespread manipulation of LIBOR after the global financial crisis and that LIBOR is no longer used in any significant volume in the market. For this reporting year, SONIA was 0.64%. The investments portfolio returned -0.73%; this was below the benchmark average of -0.41%. More detail can be found in section 3.6.

The credit worthiness of investments has remained at AA- average over the year.

**Prudential Indicators (PI) and Treasury Management (TM) indicators have been fully complied with.** Over the reporting period, all treasury management (TM) activities were performed in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy Statement.

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## **Recommendations:**

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for the year ending 31 March 2020; and
- note the Council's investments as set out in Appendix 1. The balance outstanding as at 31 March 2020 was £257.750m.

### **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 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 was to deviate from those requirements, there would need to be justifiable reason for doing so.

### **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. 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.

3.3 The Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision (MRP) reports were included in the Budget Pack that was presented to Council on 20th February 2019.

#### 3.4 **ECONOMIC COMMENTARY FROM THE TREASURY ADVISER ARLINGCLOSE**

3.4.1 **Economic background:** In response to the spread of the coronavirus and the sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to help control the shock to the economy. The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved on 11 March to cut rates from 0.75% to 0.25% and then swiftly thereafter brought them down further to the record low of 0.1% on 19 March 2020. In conjunction with these cuts, the UK government introduced some measures to help businesses and households impacted by the pandemic.

3.4.2 The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a \$2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

3.4.3 **Financial markets:** Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries similarly seeing huge falls. In March, sterling touched its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially.

3.4.4 **Credit review:** Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. This was after remaining flat in January and February, between a range of 30-55bps.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the advice on all these banks was to cut duration to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by various actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, except Barclays Bank, Rabobank,

Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-.

### **3.5 INTEREST RATE FORECAST FROM ARLINGCLOSE**

- 3.5.1 In the near-term, global economic outlook remains exceedingly weak as the containment measures taken by national governments in response to coronavirus (COVID-19) effectively suspend many types of business activity, particularly the service sector. While the economic shock has affected both the supply and demand sides of economies, it is likely to be demand that takes longer to recover due to rises in unemployment and the impact on consumer confidence.
- 3.5.2 The global central banks and government responses have been significant and will act to support the recovery when it occurs, by keeping financial conditions stable and many businesses solvent/employees employed than would otherwise be the case. The economic bounce later in the year will be significant, as businesses currently dormant begin production/supply services once more.
- 3.5.3 The scale of the economic shock to demand via the impact on employment and confidence, and the probable on-going social distancing measures necessary before a vaccine is produced will however, mean that the subsequent pace of recovery is limited. Early signs of this are evident in the Chinese data, although the impact may be even more significant for Western economies that have now experienced an even greater virus impact.
- 3.5.4 The situation will result in central banks maintaining emergency rates for longer than anticipated. In the UK, Bank Rate is therefore likely to remain at low levels for a very long time.
- 3.5.5 Longer-term yields may follow a slightly different path as central bank asset purchases end, and investors look more closely at government balance sheets. A steeper yield curve is the likely result, particularly if investors believe that governments will seek to inflate the debt burden away.
- 3.5.6 Arlingclose expects Bank Rate to remain at the current 0.10% level until 2022. Rises in Bank Rate thereafter will be gradual.
- 3.5.7 Further action by the Bank of England will depend on conditions, although we believe the Bank Rate itself will not fall further.
- 3.5.8 Gilt yields will remain low in the medium term, although longer-term durations could experience some upward movement as investors assess the size of the UK government's debt burden and possible strategy to reduce this.
- 3.5.9 Downside risks remain in the near-term as households and businesses react to an unprecedented set of economic circumstances.

### **3.6 TREASURY MANAGEMENT STRATEGY 2019-20**

- 3.6.1 The Treasury Management Strategy Statement was approved on 20th February 2019 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2019-20 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 At 31st March 2020, the Council had net investments of £185.5m arising from its revenue and capital income and expenditure, a decrease on 2019 of £123.4m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in Table 1 below.

**Table 1: Balance Sheet Summary**

	<b>31<sup>st</sup> March 2019 Actual £m</b>	<b>Movement over the Year £m</b>	<b>31<sup>st</sup> March 2020 Actual £m</b>
General Fund CFR	270.896	72.222	343.118
HRA CFR	84.903	-16.121	68.782
<b>Total CFR</b>	<b>355.799</b>	56.101	<b>411.900</b>
Less: Other debt liabilities *	-59.874	-1.274	-58.600
<b>Borrowing CFR</b>	<b>295.925</b>	57.375	<b>353.300</b>
<i>Less: External borrowing</i>	74.296	-2.007	72.289
<i>Internal borrowing</i>	221.629	59.382	281.011
Usable reserves	-521.654	-35.194	-486.460
Working capital	-256.700	-204.399	-52.301
<b>Net (investments)</b>	<b>-308.854</b>	<b>-123.393</b>	<b>-185.461</b>

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

- 3.6.3 The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low. The balance sheet summary position at 31<sup>st</sup> March 2020 is shown in Table 1 above, with the treasury management position at 31<sup>st</sup> March 2020 shown in Table 2 below. The extent of internal borrowing which stood at £281.01m at the end of the financial year 2019-20, is the difference between the Borrowing CFR (£353.3m) and the level of external borrowing (£72.3m).

**Table 2: Treasury Management Summary**

	<b>31.03.19 Balance £m</b>	<b>Movement over the Year £m</b>	<b>31.03.20 Balance £m</b>	<b>31.03.20 Rate %</b>

Long-term borrowing	74.296	(2.007)	72.289	3.12
Short-term borrowing	-	-	-	-
<b>Total borrowing</b>	<b>74.296</b>	<b>(2.007)</b>	<b>72.289</b>	<b>3.12</b>
Long-term investments	73.000	(2.000)	71.000	
Short-term investments	273.500	(192.000)	70.000	
Cash and cash equivalents	36.650	68.600	116.750	
<b>Total investments</b>	<b>383.150</b>	<b>(125.400)</b>	<b>257.750</b>	<b>1.39</b>
<b>Net investments</b>	<b>308.854</b>	<b>(123.393)</b>	<b>185.461</b>	

### **Borrowing Strategy for the year ending 31<sup>st</sup> March 2020**

- 3.6.4 The Council held £72.289m of external loans at 31st March 2020 which is £2.007m lower than the 31<sup>st</sup> March 2019 position of £74.296. The borrowing position as at 31<sup>st</sup> March 2020 is shown in Table 3 below.

**Table 3: Borrowing Position**

	<b>31.03.20 Balance £m</b>	<b>31.03.20 Rate %</b>
Public Works Loan Board	54.789	2.72
Banks (fixed term)	17.500	4.34
<b>Total borrowing</b>	<b>72.289</b>	<b>3.12</b>

- 3.6.6 The Council takes a low risk approach to its borrowing strategy. This means that the principal objective when borrowing is 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 is to have flexibility to renegotiate loans should the Council's long-term plans change.

As this year has illustrated, PWLB funding margins have changed quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e. the PWLB HRA borrowing rate. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

### **Investment Activity**

- 3.6.7 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position at the year-end is shown in Table 4 below.

3.6.8 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.

**Investments Outstanding & Maturity Structure**

3.6.9 The table below shows the amount of investments outstanding at the end of March 2020, split according to the financial sector.

**Table 4: Outstanding Investments by financial sector**

<b>Financial Sector</b>	<b>31.03.19 Balance £m</b>	<b>Movement over the Year £m</b>	<b>31.03.20 Balance £m</b>	<b>% Portfolio</b>
UK Banks	25.000	(5.000)	20.000	7.76
UK Building Societies	-	-	-	-
Government (incl. local authorities)	145.500	(41.500)	104.000	40.35
Overseas Banks	100.000	(100.000)	-	-
Money Market Funds	36.650	21.100	57.750	22.40
Pooled Investment Funds:	76.000	-	76.000	29.49
<i>Cash plus funds</i>	20.000	-	20.000	
<i>Short-dated bond funds</i>	18.000	-	18.000	
<i>Strategic bond funds</i>	9.000	-	9.000	
<i>Equity Income funds</i>	13.000	-	13.000	
<i>Property funds</i>	5.000	-	5.000	
<i>Multi asset income funds</i>	11.000	-	11.000	
<b>Total investments</b>	<b>383.150</b>	<b>(125.400)</b>	<b>257.750</b>	

3.6.10 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. In 2018, the Council diversified into more secure and/or higher yielding asset classes by allocating £100m for strategic pooled investments and £76m has been invested to date as shown in Table 4 above.

**Performance Report**

3.6.11 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 2019-20 is 114bps (1.14%) on an average cash balance of £350m.

3.6.12 In 2018-19, the Council invested in bond, equity, multi-asset and property funds (£76m). The falls in the capital value of the underlying assets were reflected in the 31st March fund valuations with every fund registering negative capital returns over 12 months to March (ranging from £0.08m to £1.2m). Whilst year-end dividend details are awaited, early calculations suggest that, despite decent income returns in 2019-20, these funds will post negative total return over the one-year period due to the capital component of total returns. The risk profile of these investments was discussed with the Committee as, since the objective is to achieve higher returns, there is the expectation and need to accept higher levels of risk (market volatility).

The unrealised capital losses though large, will however, not have an impact on the General Fund as the Council has elected to present changes in the funds’ fair values in other comprehensive income (FVOCI).

3.6.13 The investment performance for the reporting period is -73bps, however this includes the impact of the deteriorated capital value of the pooled funds. The income only average rate of return is 1.39% and investment income of £5.4m was generated in 2019-20.

**Table 5: Investment performance for financial year to 31<sup>st</sup> March 2020**

Period	LBTH Internal Return	External Fund Return	LBTH Total Return	Benchmark Return	Over/(Under) Performance
Full Year 2018-19	0.97%	1.97%	1.16%	1.24%	(0.08%)
Quarter 1	1.01%	2.79%	1.41%	1.23%	0.18%
Quarter 2	0.94%	3.61%	1.60%	1.14%	0.46%
Quarter 3	0.90%	3.25%	2.50%	1.61%	0.89%
Full Year 2019-20	0.87%	(4.90%)	(0.73%)	(0.41%)	(0.32%)

### 3.7 Investment Benchmarking

3.7.1 LBTH participates in a benchmarking club being run by Arlingclose to enable officers compare the Council’s treasury management and investment returns against those of similar authorities. The model considers a combination of credit, duration and returns achieved over the duration, and it includes data from 127 local authorities. The progression of risk and return metrics are shown in Table 6 below.

**Table 6: Investment Benchmarking**

	<b>Tower Hamlets</b>	<b>13 London &amp;</b>	<b>127 Local</b>
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	31.03.2019	31.03.2020	Metropolitan Average	Authorities (LAs) Average
Internal Investments	£307.2m	£181.8m	£92.6m	£71.9m
External Funds	£75.2m	£69.4m	£11.9m	£12.6m
Average Credit Score	3.96	3.65	4.16	4.03
Average Credit Rating	AA-	AA-	AA-	AA-
Number of Counterparties & Funds	38	30	11	14
Proportion Exposed to Bail-in	20%	40%	57%	56%
Proportion Available within 7 days	12%	35%	66%	49%
Proportion Available within 100 days	51%	62%	78%	70%
Average Days to Maturity	108	108	89	20
Internal Investment Return	<b>0.97%</b>	<b>0.87%</b>	<b>0.59%</b>	<b>0.64%</b>
External Funds - Income Return	1.97%	2.75%	2.86%	3.73%
<b>Total Investments - Total Return</b>	<b>1.16%</b>	<b>-0.73%</b>	<b>-0.41%</b>	<b>-0.34%</b>

3.7.2 It can be seen that as at 31st March 2020 LBTH investment portfolio was delivering 0.87%, outperforming the benchmarking average of 0.59% and also the average return for 127 LAs of 0.64%, whilst total return for total investments LBTH generated -0.73% thereby underperforming by 32bps against the average return for 13 London Boroughs and Metropolitan Boroughs of -0.41%, and also underperforming by 39bps against the average return for 127 LAs of -0.34%.

3.7.3 Table 6 shows that the externally managed investment returns had deteriorated as a result of the severe fall in equity markets at the end of the financial year due to the economic impact of Covid-19. External pooled funds therefore had a capital loss of £6.6m with a portfolio valuation of £69.4m instead of the invested amount of £76m.

3.7.4 The investment portfolio's credit worthiness remains stable at AA-. The proportion of investments exposed to bail-in increased from 20% to 40%, however remains less than the benchmark average of 57%.

3.7.5 It can also be seen from the above table that the number of counterparties the Council had as at 31<sup>st</sup> March 2020 was 30, this was more than double the benchmarking average of 11. This shows the Council is managing the counterparty risk and concentration risk of the investments portfolio by investing with many quality grade institutions and local authorities.

### 3.8 Compliance Report

- 3.8.1 All treasury management activities undertaken from the beginning of the financial year 2019-20 to the current reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy Statement.
- 3.8.2 Compliance with the authorised limit and operational boundary for external debt is set out in table 7 below.

**Table 7: Debt Limits**

	<b>31.03.19 Actual £m</b>	<b>31.03.20 Actual £m</b>	<b>2019-20 Operational Boundary £m</b>	<b>2019-20 Authorised Limit £m</b>	<b>Complied</b>
Borrowing	74.296	72.289	391.327	406.327	✓
PFI & finance leases	61.181	58.650	57.266	72.266	✓
<b>Total debt</b>	<b>135.477</b>	<b>130.939</b>	<b>448.593</b>	<b>478.593</b>	✓

- 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.

	<b>30.12.19 Actual</b>	<b>31.03.20 Actual</b>	<b>2019-20 Target</b>	<b>Complied</b>
Portfolio average credit rating	AA-	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.

	<b>30.12.19 Actual</b>	<b>31.03.20 Actual</b>	<b>2019-20 Target</b>	<b>Complied</b>
Total cash available within 3 months	£124m	£156m	£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:

	<b>30.03.19 Actual</b>	<b>31.03.20 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 months	£1.004m	£0.755m	10%	0%	✓
12 months and within 24 months	£1.004m	£1.662m	30%	0%	✓
24 months and within 5 years	£3.580m	£1.163m	40%	0%	✓
5 years and within 10 years	-	-	80%	0%	✓
10 years and above	£51.209m	£51.210m	100%	0%	✓

### 3.9 **Non Treasury Investments**

3.9.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. For English Authorities this is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to include all such assets held partially for financial return.

3.9.2 The Council currently does not have such investments.

## 4. **EQUALITIES IMPLICATIONS**

4.1 There are no equality implications directly arising from this report.

## 5. **OTHER STATUTORY IMPLICATIONS**

5.1 This section of the report is used to highlight further specific statutory implications that are wither not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications include:

- Best Value implications
- Consultations
- Environmental (including air quality)
- Risk management
- Crime Reduction
- Safeguarding
- Data protection/ Privacy Impact Assessment

### **Best Value Implications**

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.

Assessment of value for money is achieved through:

- Monitoring against benchmarks

- Operating within budget

## **Risk Management**

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

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.

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

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 Arlingclose who specialise in local authorities' treasury issues.

## **6. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 6.1 This report provides an update on Treasury Management activities for the 2019-20 financial year.
- 6.2 The Council held an investment portfolio of £257.750m as at 31st March 2020. This portfolio earned an income only average rate of return of 1.39% and a total return on investments (including capital gains & losses) of -0.73%. This loss was due to the impact of Covid-19 on the value of equity assets.
- 6.3 The Council's approach to investment activities includes the use of pooled fund investments to increase the level of investment income generated, in line with approvals given in the Treasury Management Strategy and Medium Term Financial Strategy (MTFS). The Council had an investment income target of £4m for 2019-20 and generated investment income of £5.4m.

## **7. LEGAL COMMENTS**

- 7.1 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.
- 7.2 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.

- 7.3 This noting report of the Corporate Director, Resources advises the Committee of the Council’s borrowing and investment activities for the year ending 31<sup>st</sup> March 2020 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.
- 7.4 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).

## **APPENDICES**

Appendix 1 – Investments Outstanding as at 31st March 2020

Appendix 2 – 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 4 2019-20 and Treasury Management Outturn Report Template

#### **Brief description of “background papers’**

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

*Pearl Emovon, x0997, Mulberry Place*

## Appendix 1: Investments Outstanding as at 31<sup>st</sup> March 2020

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate	
<b>Overnight</b>	Aberdeen MMF		On demand	24.750		
	Amundi MMF		On demand	4.300		
	Aviva MMF		On demand	25.000		
	Insight MMF		On demand	1.200		
	Invesco MMF		On demand	2.500		
	<b>SUB TOTAL</b>			<b>57.750</b>		
<b>&lt; 1 Month</b>	NIL			0.000		
	<b>SUB TOTAL</b>			<b>0.000</b>		
<b>1 - 3 Months</b>	Ashford Borough Council	28/02/2020	29/05/2020	6.000	0.88%	
	Blackpool Council	12/03/2020	12/06/2020	5.000	0.85%	
	Blackpool Council	20/03/2020	22/06/2020	5.000	0.85%	
	Brentwood Borough Council	21/02/2020	21/05/2020	5.000	0.88%	
	Flintshire County Council	28/02/2020	28/05/2020	8.000	0.92%	
	Lloyds Bank	10/06/2019	10/06/2020	20.000	1.25%	
	Plymouth City Council	24/02/2020	24/06/2020	10.000	0.90%	
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000		
	Royal London Enhanced Cash Plus Y (POOLED)			10.000		
		<b>SUB TOTAL</b>			<b>79.000</b>	
<b>3 - 6 Months</b>	Santander Bank	14/04/2011	Notice 95d	20.000	0.85%	
	Dumfries & Galloway Council	20/08/2019	20/08/2020	5.000	1.35%	
	The City of Liverpool	20/03/2020	21/09/2020	10.000	0.90%	
	<b>SUB TOTAL</b>			<b>35.000</b>		
<b>6 - 9 Months</b>	Lancashire County Council	10/05/2019	10/11/2020	20.000	1.30%	
	<b>SUB TOTAL</b>			<b>20.000</b>		
<b>9 - 12 Months</b>	NIL			0.000		
	<b>SUB TOTAL</b>			<b>0.000</b>		
<b>&gt; 12 Months</b>	CCLA Lamit Property Fund (POOLED)			5.000		
	CCLA Diversified Income Fund (POOLED)			5.000		
	Payden Absolute Return Bond Fund (POOLED)			10.000		
	Columbia Threadneedle Global Equity Income Fund Z (POOLED)			3.000		
	Columbia Threadneedle Strategic Bond Fund Z (POOLED)			5.000		
	Columbia Threadneedle Sterling Short-Dated Corporate Bond Fund (POOLED)			8.000		
	Investec Fund Series I Diversified Income (POOLED)			6.000		
	Schroder Income Maximiser Fund (POOLED)			3.000		
	M & G Global Dividend Fund (POOLED)			2.000		
	M & G Optimal Income Fund (POOLED)			2.000		
	M & G UK Income Distribution Fund (POOLED)			3.000		
	M & G Strategic Corporate Bond Fund (POOLED)			4.000		
	Middlesbrough Council			10.000	1.35%	
		<b>SUB TOTAL</b>			<b>66.000</b>	
		<b>GRAND TOTAL</b>			<b>257.750</b>	

## **Appendix 2 – Glossary**

Asset Life	How long an asset, e.g. a Council building is likely to last.
Bail-in	A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings rather than the government or taxpayers
Bail-out	A bailout is a colloquial term for the provision of financial help to a corporation or country which otherwise would be on the brink of failure or bankruptcy.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial

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

Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A ‘pool’ of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council’s Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
SONIA	Sterling Overnight Indexed Average
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.





# AUDIT COMMITTEE WORK PLAN 2020/21

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Last updated:	4 <sup>th</sup> November 2020

**AUDIT COMMITTEE WORK PLAN 2020/21**

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
<b>12<sup>TH</sup> NOVEMBER 2020</b>			
1. Terms of reference 2019-20	Approval of terms of reference for the Committee	Farhana Zia	
2. Deloitte	Standing Item	Jonathan Gooding/Angus Fish	
3. Audit of the Council's Accounts 2018/19 & 2019/20 – progress update	A report of the progress being made toward the completion of the audits of both the 2018/19 and 2019/20 accounts	Kevin Bartle / Neville Murton	
4. Independent Review - 2018/19 Audit of Accounts	The Audit Committee requested an independent review of the circumstances surrounding the delayed production of the 2018/19 accounts and the consequent delayed external audit and audit opinion. This item presents the report of the outcomes of that independent review.	Kevin Bartle / Neville Murton  Peter Worth from Worth Technical Accounting Solutions	
5. Draft Annual Governance Statement 2019/20	For review and approval with Annual Accounts 2019/20.	Paul Rock	Item deferred
6. Annual Review of Anti-Bribery Policy	Annual review and approval of the Council's Anti-Bribery policy.	Paul Rock	Incorporated in Internal Audit/ Anti-Fraud report
7. Internal Audit and Anti-Fraud update 2020/21	An update on the progress against the delivery of the 2020/21 Annual Internal Audit Plan. Highlights any significant issues since the last report to the Audit Committee.	Paul Rock/Bharat Mehta/ Tony Qayum	
8. Risk Management Report 2020-21	An update of risks on the Corporate Risk Register.	Paul Rock	

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**AUDIT COMMITTEE WORK PLAN 2020/21**

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
9. Anti-Money Laundering Policy Report 2019 -2020	Annual Report updating the Anti-Money Laundering Policy	Agnes Adrien	Report deferred Jan 2021
10. Treasury Management Outturn Report 2019 -20	Report on the treasury management activities and performance against targets for the year ending 31 March 2020.	Kevin Bartle/ Allister Bannin	
11. Treasury Management Mid-Year Report 2020-21	Progress on the Treasury Management Strategy Statement and the Treasury Prudential Indicators.	Kevin Bartle / Allister Bannin	
12. Audit Committee Work Plan	Review and agree items on the work plan for the Committee.	Audit Committee Members	
<b>28<sup>TH</sup> JANUARY 2021</b>			
1. Deloitte	Standing Item •	Jonathan Gooding/Angus Fish	
2. Internal Audit Charter	Annual review and approval of the Internal Audit Charter	Paul Rock	
3. Draft Accounting Policies 2021/22	To review and approve the accounting policies that will be implemented during the financial year and reflected in the published Statement of Accounts for that period.	Allister Bannin/ Brian Snary	
4. Internal Audit and Anti-Fraud update 2020/21	An update on the progress against the delivery of the 2020/21 Annual Internal Audit Plan. Highlights any significant issues since the last report to the Audit Committee.	Paul Rock/Bharat Mehta/ Tony Qayum	
5. Risk Management Report 2020-21	An update of risks on the Corporate Risk Register.	Anthony Sotande-Peters	
6. Treasury Management Report 2020-21	Progress on the Treasury Management Strategy Statement and the Treasury Prudential Indicators.	Kevin Bartle / Allister Bannin	
7. RIPA Policy		Agnes Adrien	

**AUDIT COMMITTEE WORK PLAN 2020/21**

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
8. Audit Committee Work Plan	Review and agree items on the work plan for the Committee.	Audit Committee Members	
<b>7<sup>TH</sup> APRIL 2021</b>			
1. Deloitte	Standing Item •	Jonathan Gooding/Angus Fish	
2. Internal Audit and Anti-Fraud update 2020/21	An update on the progress against the delivery of the 2020/21 Annual Internal Audit Plan. Highlights any significant issues since the last report to the Audit Committee.	Paul Rock/Bharat Mehta/ Tony Qayum	
3. Risk Management Report 2020-21	An update of risks on the Corporate Risk Register.	Anthony Sotande-Peters	
4. Treasury Management Report 2020-21	Progress on the Treasury Management Strategy Statement and the Treasury Prudential Indicators.	Kevin Bartle / Allister Bannin	
5. Annual Internal Audit and Counter-Fraud Strategy & Plan	Draft Internal Audit Plan for 2021/22. For review and approval by the Committee.	Paul Rock	
6. Draft Annual Governance Statement 2020/21	For Review. Approval in July 2021 with Annual Accounts.	Paul Rock	
7. Review of Code of Corporate Governance 2020/21	To report on an annual basis. Monitoring Officer. Approval in July 2021 with Annual Accounts.	Asmat Hussain/ Mark Norman/ Matthew Mannion	
8. Anti-Money Laundering Policy 2020 -21	Annual Report updating the Anti-Money Laundering Policy	Agnes Adrien	
9. Whistleblowing Report 2020-21	To report on an annual basis. Monitoring Officer	Asmat Hussain / Mark Norman	
10. Draft Terms of reference for 2021-22	Review. To be approved in July 2021	Farhana Zia/Paul Rock	
11. Annual Self-Assessment and report of the Audit Committee	Self –Assessment – April 2021 Report by the Audit Chair to go to Full Council in July 2021	Cllr Whitehead/ Paul Rock/ Charlotte Webster/ Farhana Zia	

**AUDIT COMMITTEE WORK PLAN 2020/21**

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
12. Audit Committee Work Plan	Review and agree items on the work plan for the Committee.	Audit Committee Members	

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