

Audit Committee



Wednesday, 7 April 2021 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 the 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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Audit Committee

Wednesday, 7 April 2021

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. MINUTES OF THE PREVIOUS MEETING(S)

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To confirm the minutes of the Audit Committee held on 28th January 2021.

3. DELOITTE ITEMS FOR CONSIDERATION

3.1 Update report to the Audit Committee on the audits for the years ended 31 March 2019 and 31 March 2020

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4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Audit of the Council's Accounts 2018/19 & 2019/20

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Next Meeting of the Committee:

Thursday, 29 July 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: Janet Fasan, Director of Legal 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 5.32 P.M. ON THURSDAY, 28 JANUARY 2021

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 David Edgar (Vice-Chair)
Councillor Marc Francis
Councillor Puru Miah
Councillor Kyrsten Perry
Councillor Dan Tomlinson
Councillor Andrew Wood
Charlotte Webster

Other Councillors Present:

Councillor Candida Ronald

Others Present:

Angus Fish – Deloitte
Jonathan Gooding – Deloitte

Officers Present:

Ahsan Khan – (Chief Accountant)
Allister Bannin – (Head of Strategic and Corporate Finance)
Kevin Bartle – (Interim Corporate Director, Resources)
Janet Fasan – (Divisional Director, Legal, Governance)
Adrian Gorst – (Divisional Director, IT)
Amanda Marcus – Divisional Director of HR
Tim Harlock – Interim Chief Accountant
Hitesh Jolapara – (Interim Divisional Director, Finance, Procurement & Audit)
Roger Jones – (Head of Revenues)
Marion Kelly – (Finance Improvement Team - Programme Director)
Bharat Mehta – (Audit Manager)
Tony Qayum – (Anti-Fraud Manager, Risk Management, Resources)
Denise Radley – (Corporate Director, Health, Adults & Community)
Paul Rock – (Head of Internal Audit, Anti-Fraud and Risk)
Ann Sutcliffe – (Corporate Director, Place)
Will Tuckley – (Chief Executive)

Craig Tucker
Farhana Zia

– Interim Chief Accountant
– (Democratic Services Officer,
Committees, Governance)

APOLOGIES FOR ABSENCE

Apologies for early departure were received from Councillor Marc Francis.

Councillor Puru Miah joined the meeting late and gave apologies for an early departure.

1. DECLARATIONS OF INTEREST

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

For the record, Councillor Kyrsten Perry stated she is the Chair of the Pensions Committee and Councillor Andrew Perry stated he is a member of the Pensions Committee.

2. UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes from the previous meeting of 12th November 2020 were agreed as an accurate record of the meeting and were signed off by the Audit Committee.

3. DELOITTE ITEMS FOR CONSIDERATION

There were no Deloitte items for consideration however Mr Jonathan Gooding and Mr Angus Fish were in attendance at the meeting to answer any questions Members may have in relation to the accounts.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Audit of the Council's Accounts 2018/19 & 2019/20 - progress update

Items 4.1 and 4.2 were considered together. See below.

4.2 Presentation on the final Accounts improvement plan

Mr Kevin Bartle, Interim Corporate Director for Resources, Ms Marion Kelly Finance Improvement Programme Director and Mr Tim Harlock, Interim Chief Accountant presented the progress made in completing the accounts for 2018/19 and 2019/20.

Mr Bartle said he was tremendously pleased both set of accounts had been reproduced and reinstated with the draft set of accounts attached at item 4.1. He thanked his team for all their hard work in achieving this milestone and said this achievement was no mean feat. He informed members the presentation would discuss the findings of the independent review and provide a summary of the progress made to date in implementing the recommendations. He said it would also provide an update on the accounts

for both years as well as the Council's Improvement plan with key actions being triaged into Phase one and Phase two of the improvement plan.

With respect to the independent review Mr Bartle said this was now publicly available on the Council's website. The review had set out 24 recommendations in four sections, which had been summarised into two sets of higher-level recommendations. Those which the Council should do to complete the 2018/19 Audit and another set recommending what the Council needed to do to sustainably improve its Accounts process.

Mr Tim Harlock, Interim Chief Accountant then provided a summary of the challenges incurred in producing the 2019/20 accounts and the third version of the 2018/19 accounts. Mr Harlock said correcting the errors in areas such as discrepancies in CIL accruals, school accounting errors, Thames Water charges and leaseholders had taken an inordinate amount of time to resolve. He said smaller errors such as the completing of the NNDR3 form and valuations of assets had also impacted on resources with each query having to be worked through.

Ms Marion Kelly, the Improvement Plan Programme Director explained the Improvement Plan would be in two phases as it was simply not possible to implement all the changes in one go. Ms Kelly said in Phase One a series of reviews would be undertaken, and changes would be made before the end of March 2021 with a further set of changes being made by May 2021 before the 2020/21 accounts need to be produced. Phase Two would deal with key improvements that cannot be completed in a short timeframe and would be led by the soon to be appointed Chief Financial Officer.

Mr Kevin Bartle said a considerable amount of changes were required and hoped the detailed presentation provided sufficient detail on the challenges faced in producing the accounts. He said he hoped to have a set of qualified accounts to present at the July 2021 meeting.

The Chair thanked the Officers for their presentation and acknowledged the work of the finance team in producing the accounts as well as taking forward the improvement plan.

In response to questions from Members the following was noted:

- The Improvement Plan Governing Board would start reporting in February 2021 to the Corporate Leadership Team.
- Mr Bartle said the overhaul of Agresso was part of Phase Two because whilst this remained a concern any move to a new system or ERP solution would be a two-year project and therefore it was simply not advisable to do this straight away. Mr Bartle said the finance team was working alongside the IT team to ensure changes to the current software Agresso could be made with extra features such as better budget management and financial controls. He said he was confident these changes would help improve the collation of data in the production of the 2020/21 accounts. He said the changes which they wanted to make were broken down into phases in terms of what can be

achieved with the existing resource levels and with additional resources.

- Councillor Marc Francis asked why the presentation had not been made available to members before the meeting.
- **ACTION:** Mr Kevin Bartle said the presentation would be circulated to members directly after the meeting. He said the presentation summarised the detail in the full report attached to the agenda at item 4.1.
- In response to if the delays in producing the accounts were a result of the restructure of the finance team from Directorate level teams to a centralised team, Mr Bartle said the restructure did impact of the production of the accounts, as stated in the independent review. He said in his view, he would have done things differently and whilst some staff left the organisation at that point, staff remained in their directorates with some functions moving to the centre. For example, the HRA (Housing Revenue Account) was moved to the centre however he believed this should be the responsibility of the Place Directorate and therefore this has been moved back to that Directorate.
- In addition, Mr Bartle explained the work undertaken to investigate and conclude queries in relation to the accounts had been done substantially by existing staff. However, additional expertise had been recruited by way of interim staff to help mentor, coach and improve the process. He said it ought to be recognised that some of the issues stem from the software system not being set up properly. This had resulted in officers having to work much harder to attain the information they needed. For example, for one year there were over 100,000 journal entries and as such a piece of work is required to rationalise this, so staff can do their job more efficiently and effectively.
- Mr Tim Harlock, Interim Chief Accountant explained the £13m schools accounting errors could be broken down into two areas. He said £11.7m had been covered by General Fund resources, following a report to Cabinet in July 2020 to draw down from reserves but £1.3m did effect school balances directly. He said this was where advances had been made to Schools but had not been accounted for correctly in the general ledger. Mr Harlock said the £11.7m related to multiple errors. He said the accounting discrepancies lied with officers of the Council rather than officers in the schools. He said the £11.7m errors related mainly to one year, made by a temporary officer who no longer worked for the Council.
- In response to how many other finance functions, other than the asset register were reliant on Excel, Mr Bartle explained quite a few areas needed to be transferred to a proper accounting system. Mr Bartle said owing to the complexity of the work needed, the Improvement Plan had been broken down into bitesize chunks however more information could be provided to the Committee.
- **ACTION:** Mr Bartle to make available a list of finance functions reliant on Excel to be provided to the Members of the Audit Committee.

- In reply to what the criteria is to retain staff, given the enormity of the work required by the Improvement Plan, Mr Bartle said an assessment would be made regarding resources and this would be reported to the Chief Executive, CLT and Cabinet for decision. He said the demand for finance staff would need to be balanced against pressures in other parts of the organisation.
- In relation to the Thames Water charges £9m had been set aside for the compensation scheme, however decisions were required on how repayment would be made to current and past tenants.
- Leaseholders are consulted on works carried out to their property and are billed for this. The anomaly referred to in the slides relates to errors in accounting when there is slippage in the timing of billing into the next financial year.
- **ACTION:** Mr Harlock to consult with Tower Hamlets Homes to find out how much notice is given to leaseholders in relation to billing of works carried out to their properties.
- The school accounting errors centred around the Council's accounting of returns. More work is required to validate the returns made and to reconcile these. The independent review recommended monthly reconciliations however under the Improvement Plan, the finance team were aiming for quarterly reconciliation. The newly appointed chief finance officer for the Children's Directorate would be overseeing the process and building the relationship with schools.
- Councillor Edgar stated it was vital the central finance team had a strong level of control and oversight to improve the quality and delivery of outputs.

The Audit Committee **RESOVLED** to:

1. Note the progress on completing the 2018/19 and 2019/20 Accounts; and,
2. Note the contents of, and the initial response to, the Independent Review and the intention to bring a detailed Improvement Plan to the Audit Committee at its 7th April 2021 meeting.

4.3 Annual Governance Statement for 2019/20

Mr Will Tuckley, Chief Executive stated the Annual Governance Statement had been produced following a comprehensive and rigorous review of the Council's code of corporate governance. Each Corporate Director had reviewed their risks and had retrospectively looked at issues to see how they had been addressed. Mr Tuckley said the statement built on the internal audit plan identifying the key changes required. Some areas had been strengthened such as the Consultation Hub, to ensure consultations were consistent and people had access to this. He said other successes had been the recruitment of an Independent Person to the Audit Committee and the sustained process of prosecutions in relation to fraud.

Mr Tuckley said in other areas such as the financial management of the accounts a great deal of work was necessary to improve processes and

procedures. He said the Annual Governance Statement was clear on the key challenges facing the organisation, such as the aforementioned and issues to address the Pensions Administration Scheme however the Council had moved to a more mature place and was now aiming to address the issues to a higher standard.

Mayor John Biggs added he appreciated the work undertaken by the Audit Committee and said it was only right to hold to account the Council's progress, which was now focussing on the internal administration arrangements and good governance processes, following the period of reputational damage. He said the Statement provided a critique of the journey the Council was on and whilst the Statement referred to the 2020/21 it was in the context of that journey. He thanked the Chair Councillor Val Whitehead for her Chairmanship and Mr Paul Rock, Head of Internal Audit for the report and said this would require sign off when presented with the accounts.

In response to questions from Members the following was noted:

- Councillor Marc Francis stated he supported the Annual Governance Statement for this year as it was honest, straightforward and speaks of the issues that need to be dealt with. He said issues such as democratic governance and accountability were commonplace in such a large organisation but hoped these would be addressed in the future.
- In reference to the Annual Audit opinion, page 62 of the agenda, Councillor Wood asked what areas needed improvement. Mr Paul Rock responded stating the AGS was providing commentary on the 2019/20 position and at the time improvement was required in risk management, financial accounting, accountability and improvement in response times to internal audit reports and management actions. He said the audit plan submitted to the Committee in July 2020 listed a programme of work, which his team were undertaking. He said they were not looking at the same areas and unfortunately discovered new areas where they had to give limited assurance. Mr Rock said he hoped future audits would lead to reasonable and substantial assurances.
- Mr Tuckley added that whilst he wished for reasonable and substantive findings from the Internal Audit team, the reports needed to reflect a higher quality of administration across the Council. Mr Tuckley said changes were required in the way processes are managed and the 'reward and recognition' scheme and PDR's had to instil this change across the organisation. He said has a multi-faceted bureaucracy, changes had to be made to systems and processes as well as the culture. He said the Audit Committee played a crucial role in this and hoped going forward more areas would achieve better assessments', but the job of internal audit was to focus on the risk and worries of the organisation.
- Clarity was sought over the wording of 'I can provide limited assurance' given on page 62 of the report. Mr Rock said he would look at the wording on a yearly basis to ensure it was fit for purpose.

The Audit Committee **RESOLVED** to:

1. Review and agree the 2019/20 Annual Governance Statement.

4.4 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 the progress against the delivery of the 2019/20 and 2020/21 Annual Audit Plan and highlighted any significant issues since the last report to the Audit Committee in November 2020.

Mr Rock referred to the draft reports and said the Local Community Fund report pending from 2019/20 audit workplan had been completed. He said good progress had been made in the implementation of agreed management action set out in Table 2, with 100% of high priority actions being fully or partially implemented. He said at this stage he'd be giving an overall 'limited assurance' however there were twenty plus reports in the pipeline and from initial indicators, he could forecast a better balance between the assurance categories of limited, reasonable and substantial.

Mr Rock referred members to paragraph 3.11 of the report and said he was pleased with the results from the first perception survey of Internal Audit's role. He said although there were areas which required improvement, he'd be working on this to achieve better outcomes. Regarding Anti-Fraud work, he said the pandemic had limited what could be done, however the team was working on Blue Badge misuse and with the Cabinet Office in relation to the Transliteration pilot. Mr Rock also informed members the Whistleblowing Policy and Anti-Fraud and Corruption strategy had been updated.

The Chair thanked Mr Rock for his report before inviting the Officer to address their individual reports which had received 'limited' assurances following Internal Audit's assessments.

Corporate Governance

Mr Will Tuckley, Chief Executive said a substantial amount of work had been undertaken to improve Corporate Governance such as the lifting of the MCHLG intervention, which had led to significant improvements. Mr Tuckley said despite this, he was disappointed with the internal audit findings of 'limited' assurance. He said since 2019 work to improve the strategic direction of governance had taken place and the Corporate Code for Governance had been reviewed. Check and balances were in place to ensure this is discussed at Corporate Leadership Team Board (CLT) and is presented to the Audit Committee for review and comment. He said the action plan for Corporate Governance is combined with the internal audit outcomes and the recommendations from the Grant Thornton report. He said it was vital that this sat at the heart of what the Council does.

In response to questions from Members the following was noted:

- Mr Tuckley acknowledged the CIFPA report referred to in the independent review and the work commissioned to Grant Thornton in 2017 ought to have been part of the corporate priorities of the CLT Board. He said reports commissioned should be owned by the CLT Board such as the work on the accounts and going forward this would certainly be the case.
- The Mayor added he concurred with Mr Tuckley that commissioned reports should be the priority of the CLT Board and said it was important Members were aware of the reports. He said attendance by senior managers to robustly defend or implement changes from internal audit reports must be taken seriously, if the organisation was to move forward.
- **ACTION:** The Chair requested reports commissioned by the CLT Board be shared with the Audit Committee. The Chief Executive agreed this ought to happen. Mr Paul Rock to circulate the referenced reports.

PCI and DSS Compliance

Mr Roger Jones, Head of Revenue Services said the 'limited' assurance related to the absence of a policy document stating how credit and debit card payment data is taken and stored securely. He said PCI and DSS compliance was dealt with by a third party - Capita, so there was no issue with the process. Mr Jones said they were hoping to have a policy document in place by April 2021.

In response to questions from Members the following was noted:

- Capita are required to submit a compliance certificate to say they are compliant. They must pass the yearly accreditation process to confirm the data stored by them is secure.

IR35 - Management and Control of Off Payroll Engagement

Ms Amanda Harcus, Divisional Director for Human Resources and OD and Mr Hitesh Jolapara, Interim Divisional Director for Finance, Procurement and Audit commented on the IR35 return.

Ms Harcus said progress had been made since the internal audit report in August 2020. She said they had a clear outline plan and were working through the recommendations. She said fewer workers were engaged outside of the IR35 arrangements, with regular reviews taking place. Mr Jolapara added Finance and HR colleagues were working jointly on this and an update had been provided to Mr Rock. He said compliance of the IR35 return was a devolved compliance model, but supply and checks were taking place. He said the guidance on the intranet had been updated, with training seminars commencing in February 2021.

In response to questions from Members the following was noted:

- Ms Marcus stated IR35 was now widely accepted. However there had been occasions when people who had applied for interim roles wanted to work outside of IR35. In those instances, HR have had conversations with the managers and employees to resolve this. Ms Marcus said there were a few roles, because of their independent nature, that fell outside of IR35 however the introduction of Addecco and Matrix software had resulted in better controls. Ms Marcus said the e-learning modules would also be updated and refreshed.
- In response to how many people were still self-employed, Ms Marcus confirmed 26 people were working outside of IR35. She said since the introduction of IR35 the number had dropped.

Management of Appointeeships and Deputyships

Mr Kevin Bartle, Interim Corporate Director for Resources and Ms Denise Radley, Corporate Director for Health Adults and Community provided an update regarding this limited assurance report.

Mr Bartle said it was clear this area required attention and as such an improvement plan was in place to ensure the recommendations made were followed through. He said resource had been an issue but a new member of staff in the Strategic Finance team within the Health, Adults and Community Directorate would be overseeing the improvement plan. Mr Bartle said he hoped to report back within the next few months on the progress made.

Ms Denise Radley added she was confident the issues highlighted within the report would be addressed quickly. She said the Office for Public Guardian had provided positive feedback in relation to the service. She said a medium priority in relation to financial documents from clients had been corrected with a simple checklist reminding staff to check for this when completing paperwork.

In response to questions from members the following was noted:

- Ms Radley said she could not fully answer why or how the issues identified within the limited assurance report had occurred but recognised this was a sensitive area involving vulnerable people. She said she was confident the issues could be easily put right, stating the annual external check undertaken by the Office of Public Guardian had provided positive feedback. Mr Rock said the internal report was a snapshot of a period in time and therefore the report was not suggesting this was a historic long entrenched problem.

Cyber and Network Security

Mr Adrian Gorst, Divisional Director for IT provided a detailed response to the limited assurance report. He said the audit report helped to identify the weaknesses in cyber and network security, thus assisting in tailoring the new contract when services are returned in-house from the 1st April 2021.

In reference to the recommendations Mr Gorst said he expected the number of privileged user accounts to drop by 80% when the service returned in-house. He said IT were looking to introduce the government endorsed Cyber Security programme, which was free to local authorities and would ask HR to add this to their list of mandatory training courses that all staff must complete.

In respect to Windows 7 machines, Mr Gorst said that most staff had been migrated to Windows 10, however they had tracked 26 machines that were operating on the old application. He said they were speaking to users to find out why they had not come forward to receive new laptops. There were three legacy software applications that needed to be migrated to new servers, which he hoped would be completed by the end of March 2021. Mr Gorst said they were reliant on their strategic partner in relation to procedures for managing major incidents, however they had worked with them to identify weaknesses and had started to rewrite procedures. Mr Gorst said they had had their annual government security review and were compliant with the PCN certificate for the next year.

In response to questions from members the following was noted:

- Councillor Edgar asked why the Government accreditation scheme had not picked up the issues that were identified in the internal audit report. Mr Gorst said the government accreditation followed a list of prescribed checks, whereas the internal audit team were directed to look at risks based on local knowledge based on working with the strategic partner for several years. Mr Gorst added that IT were also undertaking quarterly check themselves and meeting monthly to ensure cyber security is appropriate. He said this had taken on importance following the cyber-attack on Hackney Council.
- In response to what lessons had been learnt from the Hackney attack, Mr Gorst said he was in regular contact with Hackney and was a member of the London Information Security Network, from which a great deal of intelligence had been received. Mr Gorst said a simple mistake had led to the attack which had resulted in the systems not running or data being lost. Mr Gorst said this is the reason why backups are now encrypted and are stored at separate geographic locations.
- Mr Gorst continued stating it was imperative to move the shared drives to Microsoft Teams and was pleased 90% of this work had been achieved. He said the next step would be to conduct a series of test to see if data had been backed up and how it can be retrieved. He said collective thinking was required on how the Council would function if there was a prolonged period where IT systems were not available. Mr Gorst said he was working with the Civil Contingency Board to address this.

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

- With regard to the perception survey, Mr Rock said he knew of one other Council that had adopted a similar approach. He said the aim of the survey was to set a baseline so that he could plan his strategy and improvement around the areas identified. He said the comments provided were insightful because there was a tendency for auditors to look back and comment upon what had happened before rather than help improve governance, risk management and controls on what the organisation was working on presently. He said he had spoken with the Interim Corporate Director of Finance and would be working with other Directorates as part of the finance improvement plan.
- In relation to the number of responses received, Mr Rock said 34 responses were received out of 100 people the survey was sent to.
- Mr Rock confirmed Cabinet Members and the Mayor received final internal audit reports, which was now standard practice.

The Audit Committee **RESOLVED** to:

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

4.5 Risk Management - Corporate Risk Register & Place Directorate Risk Register

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Risk Management Report. He said he was pleased with the progress made on the corporate risk register and said management of risk had improved during the pandemic, with increased responsiveness to Gold and Silver command. Mr Rock said the review of the risk registers at CLT and DLT had improved with owners being fully engaged in the management of the risk. He said the dedicate risk champions met regularly and whilst there were always areas to improve overall it was a positive picture.

Ms Ann Sutcliffe, Corporate Director for Place then presented the deep dive into her Directorate's risk register.

Ms Sutcliffe said she endorsed Mr Rock's view that there was increased ownership of risks and this had been embedded to be an integral part of business in day to day activity. Ms Sutcliffe said the Place Directorate had lost some of the momentum in updating and keeping abreast of risk register when the Officer responsible retired. However, this had been resolved with a new member of the team taking on the role, who had received training from Mr Rock's team.

Ms Sutcliffe said a review of the Directorate risk register and the service register commenced in November 2020, with five risks on the Directorate risk register being closed. Ms Sutcliffe said risk PMP0008 would be reallocated to

the Children and Culture Directorate, as Place are responsible for the asset management for the building and not the day to day running of it.

Ms Sutcliffe said one of the big issues for the Directorate had been fire safety. She said this was discussed at the last meeting of the Audit Committee and work was underway to adjust the risk in line with the Building Safety Bill, whereby Council's will be responsible for the safety of high-rise buildings. Ms Sutcliffe said a report was being prepared for CLT and Cabinet which would set out the roles and responsibilities; and the resource implications this would have. Ms Sutcliffe said emerging risks would be added to the Service and Directorate risk registers.

Other areas that required monitoring were risk associated with Judicial Reviews and the Capital works programme.

In response to questions from members the following was noted:

- Councillor Wood said he was surprised only five risks were on the Directorate risk register and asked how risks were recorded on the register. Ms Sutcliffe said risks are removed from the register once they had been mitigating against. For example, the management of the new Town Hall and the discovery of asbestos. This was on the risk register, throughout the period when decisions had to be made regarding the removal of asbestos however came off the register once it had been dealt with. Ms Sutcliffe said the real challenge facing her Directorate were risks associated with fire safety, cladding and tall buildings. She said the Council had to ensure it gets this right. Ms Sutcliffe said work was underway to identify the risks and what this would mean for the Council.
- Mr Paul Rock added that there was a staged risk management system in place, with service level, project level, Directorate or Corporate level registers. He said it was difficult provide a complete list of risks, as risks can change weekly. The register was providing a snapshot of risks currently on the Place Directorate's register.
- In respect to the two COVID-19 related risks on the Corporate register, Mr Rock explained these were seen as the overarching risks however there were an array of risks identified as high and medium risks which the Gold and Silver Command were managing separately from the Councils risk management software JCAD.
- Discussion regarding the scoring of risks took place. Mr Rock explained a 5x5 matrix was used, with descriptors to help the risk owner score the risk objectively. Ms Webster said risk owners needed to be mindful that sometimes from an impact perspective, the existing control measures and target controls could not be reduced due to circumstances which were beyond their control.

The Audit Committee **RESOLVED** 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 Place Directorate 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 directorates objectives at the next Committee meeting (or separately before the meeting if urgent).
3. Note the progress made against the Annual Action Plan for Risk Management.

4.6 Treasury Management Strategy Statement, Investment Strategy and Capital Strategy Report for 2021-22

Mr Hitesh Jolapara, Interim Divisional Director for Finance, Procurement and Audit presented the Treasury Management Strategy Statement, Investment Strategy and Capital Strategy report for 2021-22. Firstly, he thanked his team for producing the report and said whilst this was a very detailed and technical report, it set out the treasury management framework which the Council was obliged to follow under the Local Government Act 2003 with regard to the CIPFA code and the MHCLG guidance on Treasury Management.

Mr Jolapara said the Council is required to produce three strategy documents, with progress updates provided in the mid-year report and the treasury management outturn report. He referred members to paragraph 3.7 and said the investment income budget was broadly on target as well as the prudential indicators.

In response to questions to from members the following was noted:

- Mr Jolopara said in the event a local authority would experience financial stresses, the Government would need to step in, as a last resort. He said when lending money to other authorities checks, such as looking at their balance sheet, monitoring and reports from regulators would all be taken into consideration.
- Mr Bartle added that it would be unprecedented for a local Council to fail and stated he did not think the government would allow this. He said lending to other local authorities was done in line with the treasury management strategy, with due diligence to minimise the risk. He said lending to other authorities carried a relatively low risk.

The Audit Committee **RESOLVED** to:

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

5. AUDIT COMMITTEE WORK PLAN

The Audit Committee noted the work plan for the last meeting of the municipal year, scheduled for April 2021.

6. EXCLUSION OF PRESS AND PUBLIC

The Chair **MOVED** and it was

RESOLVED:

“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.”

7. RESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The restricted minutes from the previous meeting of 12th November 2020 were agreed as an accurate record of the meeting and were signed off by the Audit Committee.

8. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no urgent business to be discussed.

The meeting ended at 8.22 p.m.

Chair, Councillor Val Whitehead
Audit Committee



London Borough of Tower Hamlets

Update report to the Audit Committee on the audits for the years ended 31 March 2019 and 31 March 2020

Issued 26 March 2021 for the meeting on 7 April 2021

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1 Introduction

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Introduction

The key messages in this report

We have pleasure in presenting an update report to the audit committee of the London Borough of Tower Hamlets (the Council) on our work on the audits of the financial statements for the year ended 31 March 2019 and 31 March 2020.

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Matters covered in this report

We issued a report on our work on the 2018/19 audit in July 2019 which discussed emerging findings from the audit and an update report in November 2020 which described further challenges encountered in the audit process for both the 2018/19 and 2019/20 audits.

This report:

- Provides an update on issues reported in our July 2019 report
- Reports on other issues which have arisen since the issue of that report
- Provides an update on areas of significant audit risk identified in our 2018/19 and 2019/20 audit plans
- Provides an update on progress on other areas of audit work
- Reports on work performed in response to the impact of the pandemic on matters relevant to our audit
- Identifies areas where we expect to make additional control observations.

As a number of issues identified are common to the audits for both years, we have prepared a single update report.

We have highlighted which year each issue is relevant to using these icons:

In our final reporting we will prepare separate reports for each financial year.



As a reminder, we have determined materiality for both years to be £25m.

Status of our work

Our audits for the years ended 31 March 2020 and 31 March 2019 are ongoing.

Since our report to the December 2020 audit committee meeting, we have coordinated our activity with officers through a series of "sprints". The greater concentration of effort has been successful in bringing some of the more challenging issues to a close – and where we have been able to do that, we report our conclusions in this document.

However, the approach has also meant that progress has been made on a narrower front and a substantial amount of work remains to be done in areas which we would expect to be more routine.

Our work on the pension scheme financial statements for both years is in progress. We understand that officers are aiming to arrange a meeting of the Pensions Committee in June and will work towards bringing reports on the findings from the pension scheme audits to that meeting, before bringing final reports to the audit committee meeting in July.

Conclusions

As our audits are in progress, we are not yet in a position to conclude.

We report in this document on uncorrected misstatements, together with other actual or possible misstatements where we are not able to quantify the amount of the misstatement. Whilst these matters are individually immaterial, in concluding our audit we will need to consider whether they may be material in the aggregate. If this was the case and they remained unadjusted, this would result in the qualification of our opinion

In our July 2019 report, we said that our value for money conclusion for 2018/19 would be qualified as improvements in childrens' services, following an earlier assessment by Ofsted that services were inadequate, were not in place for the whole of 2018/19. In this document we report that we expect both the 2018/19 and 2019/20 value for money conclusions will also be qualified due to weaknesses in financial reporting arrangements and explain the background to this judgement.

Introduction

Guide to other icons used in this report

We have used the following icons to focus attention on key points in this document

Misstatements

These are used to highlight misstatements which:

Corrected

- were corrected in the version of the accounts circulated to the audit committee in January 2021

Corrected

- officers inform us will be corrected in the version of the accounts to be circulated to the April committee. As a result of the timing for preparation of our respective papers, we have not been able to verify that this has been correctly updated

Uncorrected

- are individually immaterial and officers have informed us that the misstatement will not be corrected

Uncorrected

- are individually material and officers have informed us that the misstatement will not be corrected. There are no items in this category

Areas of unresolved uncertainty or outstanding work

This is used to highlight comments relating to unresolved issues, uncertainty or outstanding work, the completion of which is not routine:



- and which relate to matters which are potentially material to the accounts.



- and which relate to matters which are not expected to be material to the accounts but which may be material in combination with other matters.



This is used to highlight comments relating to outstanding work which is of a routine nature. Note that this is not intended to represent a statement of all work which is required to complete our work on the accounts as a whole

Control observations



This is used to highlight comments where we expect to make control observations in our final report.

2 Page 26 Update on issues reported in our July 2019 report

Update on issues reported in our July 2019 report

Area	Observation
<p data-bbox="91 239 324 343">Release of creditor balance</p> <p data-bbox="91 359 212 470">FY 19</p> <p data-bbox="91 726 145 893">Page 27</p>	<p data-bbox="324 239 2016 311">In our report in July 2019 on the 2018/19 accounts, we reported on an interim basis on a release of a credit of £20.0m which had been brought forward on the balance sheet as part of a larger credit balance relating to the collection of taxes.</p> <p data-bbox="324 319 2016 391">We requested an explanation of the release of the credit in the original version of the 2018/19 accounts. Officer's subsequent investigation of the balance concluded that:</p> <ul data-bbox="324 399 2016 742" style="list-style-type: none"><li data-bbox="324 399 2016 502">• The amount had accumulated over a period of several years and related to posting errors involving the bad debt provision for business rates arrears. The amount represented the part of the provision which was identified to be in excess of requirement as a result of the posting errors.<li data-bbox="324 510 2016 582">• This position was identified in 2014/15 and the amount which was in excess of requirement was transferred to an account included in Short term creditors.<li data-bbox="324 590 2016 662">• In the original version of the 2018/19 accounts, authorised for issue in May 2019, an entry was made to release the credit to the General Fund.<li data-bbox="324 670 2016 742">• As the amount was originally charged to the Collection Fund as a bad debt provision and was now in excess of the required amount, the liability should have been released in the Collection Fund and not to the General Fund. <p data-bbox="324 750 2016 790">On the basis of this conclusion:</p> <ul data-bbox="324 798 2016 981" style="list-style-type: none"><li data-bbox="324 798 2016 901">• Officers wrote to MHCLG in September 2019 for guidance and MHCLG have agreed that the amount can be accounted for as an in-year release of the provision in the Collection Fund. This means that the benefit of the reversal is subject to the 100% local retention and pan London pooling arrangements applicable to 2018/19.<li data-bbox="324 909 2016 981">• Correcting entries have been made in the Council accounts and supplementary Collection Fund statement in line with the guidance from MHCLG. <p data-bbox="324 989 2016 1029">We inspected officers' concluding report prepared as a basis for these entries. We concluded that:</p> <ul data-bbox="324 1037 2016 1492" style="list-style-type: none"><li data-bbox="324 1037 2016 1109">• The information provided through officers' investigation is not sufficient to determine which original entries (if any) were erroneous.<li data-bbox="324 1117 2016 1189">• The analysis of entries giving rise to the original credit supports that the credit relates to the collection and disbursement of business rates.<li data-bbox="324 1197 2016 1268">• Our work on the Collection Fund does not identify the need for a balance to be held (either amounts due to business rates payers; bad debt provision; or amounts due other preceptors arising from transactions in the period).<li data-bbox="324 1276 2016 1380">• Whilst the quality of records means that the position is not certain, it is, as a result, probable that the amount: forms part of the Collection Fund balance sheet; is in excess of any requirement; and should be released to the Collection Fund.<li data-bbox="324 1388 2016 1492">• The credit has been released on the bad debt expense line within the Collection Fund supplementary statement. Officers have explained why this is the appropriate classification, but the evidence for this (or alternate) classifications is very limited. However, the amount is immaterial to the presentation of the Collection Fund.

Corrected



Update on issues reported in our July 2019 report

Area	Observation
<p data-bbox="80 295 257 422">Release of creditor balance (continued)</p> <p data-bbox="80 446 190 558">FY 19</p> <p data-bbox="80 694 145 861">Page 28</p>	<p data-bbox="324 295 2085 422">Our procedures also included considering whether it was appropriate to account for the release of the credit as a current year item in the Council's accounts or whether opening balances and prior year information should be restated. Officers have told us that they have been unable to determine the reason for the decision taken in 2014/15 to carry forward the "excess" provision amount, rather than release to the Collection Fund.</p> <p data-bbox="324 438 627 470">We have concluded:</p> <ul data-bbox="324 486 2085 813" style="list-style-type: none"><li data-bbox="324 486 2085 678">• As the excess provision amount was substantially accumulated during a period when the council was acting as an agent for central government in the collection of all business rates, it is reasonable to conclude that officers, at that time, considered it was likely that amounts previously deducted from past remittances to central government in relation to the excess provision would need to be paid to central government in the future and therefore that it was appropriate to carry this credit balance on the balance sheet. The lack of adequate contemporaneous documentation (as explained further below) increases the amount of judgement involved in this accounting decision<li data-bbox="324 694 2085 758">• The release of the credit therefore arises from a change in estimate arising from the department's clarification of its expectations.<li data-bbox="324 774 2085 813">• It is therefore appropriate to account for the release in 2018/19 and not by restatement of opening balances. <p data-bbox="324 829 2085 981">Officers' investigations identified a brief comment in a working paper in 2014/15 on the accounting treatment. However, this did not adequately explain either the preceding treatment or the rationale for transferring the credit to a separate, short term creditor account. Similarly, we have not been able to obtain documentation which explains the decision to carry forward this credit at subsequent year ends or which explains either the decision to release the credit in 2018/19 or the initial decision to release this to the General Fund and not the Collection Fund.</p> <p data-bbox="324 997 2085 1061">This type of documentation forms an important part of the Council's accounting records and the absence of the documentation and appropriate internal scrutiny of the decision-making represents a significant control deficiency.</p>



Update on issues reported in our July 2019 report

Area	Observation
<p data-bbox="78 295 280 359">Deficit contribution</p> <p data-bbox="78 367 313 486">FY 19 FY 20</p> <p data-bbox="78 726 145 901">Page 29</p>	<p data-bbox="336 295 2197 359">In our July 2019 report, we reported on an interim basis on the accounting for a lump sum payment contribution in 2017/18 of £43.4m.</p> <p data-bbox="336 375 2197 478">The 2016 triennial valuation of the Tower Hamlets Local Government Pension Scheme (LGPS) administered by the Council identified a deficit and the actuary requested three annual deficit funding contributions of £15m each. The Council had discussions and correspondence with the actuary over a proposal for the Council to contribute a lower amount in a single payment in 2017/18.</p> <p data-bbox="336 486 2197 622">Payment of a single upfront lump sum in exchange for a reduction in total deficit funding contribution is a common arrangement promoted by some actuaries in the sector at the time of the last actuarial valuation and there is correspondence with the actuary in this particular instance which supports that he was content with the proposal. The proposal was also approved by the Council's Pension Committee.</p> <p data-bbox="336 630 2197 702">The requirements in relation to the valuation of local government pension scheme funds and employer contributions are set out in the Local Government Pension Scheme Regulations 2013. They require:</p> <ul data-bbox="336 710 2197 829" style="list-style-type: none"><li data-bbox="336 710 2197 750">• An administering authority to obtain a rates and adjustments certificate at three yearly intervals from 31 March 2016.<li data-bbox="336 758 2197 829">• A scheme employer to contribute to the appropriate LGPS fund in each year the amount appropriate for that authority as calculated in accordance with the certificate. <p data-bbox="336 837 2197 973">The rates and adjustment certificate was not updated to reflect the agreement which the Council believes it had reached with the actuary and instead shows the originally proposed payment schedule of three annual instalments of £15m each. Additional wording was not included on the rates and adjustments certificate which would have allowed flexibility in the timing and/or amount of contributions.</p> <p data-bbox="336 981 2197 1053">The Council proceeded to make a single lump sum payment of £43.4m in 2017/18, in line with its assumed agreement with the actuary, and has not made further deficit funding contributions in the current triennial period.</p> <p data-bbox="336 1061 2197 1133">The full amount of the lump sum contribution of £43.4m was recognised in the LGPS accounts on receipt of cash in 2017/18, rather than being spread over the three year period.</p> <p data-bbox="336 1141 2197 1246">In the Council accounts, under legislation which requires the General Fund to be charged on the basis of contributions payable in respect of the reporting period, the lump sum payment is being charged to the General Fund reserve in 3 equal instalments from 2017/18. The amount deferred at 31 March 2018 and 31 March 2019 has been carried in the Pension Reserve.</p>

Update on issues reported in our July 2019 report

Area	Observation
<p data-bbox="80 300 302 395">Deficit contribution (contribution)</p> <p data-bbox="80 427 302 539">FY 19 FY 20</p>	<p data-bbox="376 300 1344 331">The Council has taken legal advice which has the following conclusions:</p> <ul data-bbox="376 347 1991 670" style="list-style-type: none"><li data-bbox="376 347 1836 379">• The Council had a statutory duty under Regulation 62(1) to “contribute” the amount set out in certificate.<li data-bbox="376 395 1859 459">• The regulations are highly prescriptive and require payment to be according to the timetable set out in the certificate.<li data-bbox="376 475 1388 507">• It was not lawful for the Council to pre-pay the amount on its certificate.<li data-bbox="376 523 1926 587">• The amount of the overpayment is due back from the LGPS fund to the Council and in principle the Council may charge interest on this.<li data-bbox="376 603 1991 670">• In the subsequent two years, the Council may set-off its liability under the certificate to pay annual contributions of £15m against the initial overpayment. <p data-bbox="376 686 716 718">We have concluded that:</p> <ul data-bbox="376 734 1991 1074" style="list-style-type: none"><li data-bbox="376 734 1948 798">• As the “overpayment” of contributions in 2017/18 is not a lawful payment of contributions and is repayable to the Council, the amount of the overpayment should be shown within debtors.<li data-bbox="376 813 1859 877">• The plan assets included in the calculation of the net pension liability should be reduced, consistent with the amended treatment in the pension scheme, explained in our separate report on the pension scheme audit.<li data-bbox="376 893 1948 957">• Contributions should be charged to the General Fund in 3 equal instalments of £15m, as required by the rates and adjustments certificate (currently they are being charged in 3 equal instalments totalling £43.4m).<li data-bbox="376 973 1991 1074">• Interest income may be recorded totalling £1.6m (i.e. the difference between the contributions required to be paid under the rates and adjustments certificate and the lower amount informally agreed with the actuary), with the result that the overall charge to the General Fund over the triennial period is unchanged.


Corrected

Update on issues reported in our July 2019 report

Area	Observation
<p>Infrastructure assets</p> <p>FY 19</p>	<p>In our July 2019 report we said:</p> <ul style="list-style-type: none">• The Council does not record infrastructure assets separately on the fixed asset register. Instead expenditure on infrastructure assets is grouped by type and by year of expenditure.• Part of the annual amount capitalised relates to replacement of a component of asset (e.g. road re-surfacing). In this situation, whilst it may be appropriate to capitalise the new expenditure, an adjustment should be made to remove the existing component from the register and fixed asset balance. It is not part of the Council's process to do this and the organisation of the fixed asset register does not facilitate this.• This practice is not uncommon in the sector and does not have a significant impact on the carrying amount of infrastructure assets where the actual asset lives approximate to the estimate of useful economic life used in the depreciation calculation (such that the asset or component of the asset has a nil net book value at the point of replacement).• The Council's policy is to depreciate all infrastructure assets over a life of 40 years. This was longer than the life assumed by other councils. <p>Following a review of asset lives performed by the relevant technical specialists within the Council, officers have reassessed lives to be in the range of 25-100 years, with lives assigned to different categories of infrastructure - in particular a life of 25 years has been assigned for the principal category, roads.</p> <p>The system of capital accounting was introduced into the Local Government SORP in 1996/7. Under transitional arrangements, the accounting guidance permitted existing assets at 1 April 2016 which were required to be held at depreciated cost (including infrastructure assets) to be brought in at nil or notional cost. As a result of these transitional arrangements, the value of assets which lies outside the revised assessment of lives is not significant.</p> <p>We have evaluated the revised lives and consider them to be reasonable, based on comparisons with other local authorities and other research.</p> <p>Changes in asset lives are accounted for by depreciating the remaining net book value over the remaining useful economic life. We have calculated the impact of the change in lives on depreciation to be £6.8m. Whilst officers have made changes to asset lives in 2019/20 to bring into line with the outcome of the internal review, changes had not been made to the version of the 2018/19 accounts circulated to the January 2021 audit committee.</p>

Corrected

Update on issues reported in our July 2019 report

Area	Observation
<p data-bbox="103 231 353 327">Implementation of IFRS 9 and IFRS 15</p> <div data-bbox="89 343 313 454">  </div> <p data-bbox="89 694 145 861" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 32</p>	<p data-bbox="398 231 846 263">In our July 2019 report we said:</p> <ul data-bbox="398 279 1881 470" style="list-style-type: none"> <li data-bbox="398 279 1881 343">• The Council is required to adopt the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenues from contracts with customers in the year ended 31 March 2019. <li data-bbox="398 359 1881 422">• Officers had not prepared information to support their conclusion that these new standards did not have a material impact. <li data-bbox="398 438 1881 470">• The Council had not made any disclosure of the impact of the transition or updated accounting policies. <p data-bbox="398 486 2002 678">Officers have subsequently provided a paper analysing the accounting of various income streams under IFRS 15. The analysis in the paper is not adequate and in particular does not recognise that the requirement for the leaseholder to contribute to the cost of major works represents a service arrangement within the Council's lease agreements such that contributions should be accounted for under IFRS 15. As a result, the paper does not contain an analysis of the accounting treatment under the new standard. We have discussed our analysis of that income stream in the next section. The form of the analysis of other income streams does not reflect the steps set out in IFRS 15.</p> <p data-bbox="398 694 2002 758">Officers have updated the accounting policies section in the statement of accounts to reflect the implementation of IFRS 15 but have not made disclosures relating to the transition.</p> <p data-bbox="398 774 2002 965">IFRS 9 introduces revised classifications for financial instruments. The Council has classified pooled investments of £55.5m at 31 March 2020 and £49.7m as measured at fair value through other comprehensive income (FVOCI). In the initial version of the 2018/19 accounts, whilst classified as such, the loss was accounted for within the surplus on provision of services. In the updated version of the 2018/19 and in the 2019/20 accounts, the loss is now recorded in other comprehensive income. We disagree with the classification and consider that these instruments should be measured at fair value through the profit and loss account (FVTPL). The practical impact of this is that:</p> <ul data-bbox="398 981 2002 1380" style="list-style-type: none"> <li data-bbox="398 981 2002 1077">• Losses of £5.8m in 2019/20 and £0.5m in 2018/19 should be reclassified from the other comprehensive income section of the CIES to Financing and Investment Income and Expenditure within the surplus on provision of services <li data-bbox="398 1093 2002 1189">• Within the Statement of Movement on Reserves, losses have been transferred to the Financial Instruments Revaluation Reserve. Instead, the loss should be charged to a different unusable reserve (CIPFA suggest this is called the pooled investment funds adjustment account). <li data-bbox="398 1204 2002 1332">• The regulations governing the pooled investment funds adjustment account are different to those applicable to the financial instruments revaluation reserve. In particular, the regulations only apply to accounts drawn up for years through to 31 March 2023 – following which gains and losses will be charged or credited to the General Fund, unless the current transitional rules are extended. <li data-bbox="398 1348 2002 1380">• The disclosure on the categorisation of financial instruments should be updated. <p data-bbox="398 1396 2002 1497">We commented in our July 2019 report that IFRS 9 introduces a new way of estimating bad debt provisions. We have not yet received full information on how assumptions in provision models have been developed to complete our work in this area (as well as for provisions against statutory debts).</p>



Uncorrected

Uncorrected

Uncorrected

Uncorrected



Update on issues reported in our July 2019 report

Area	Observation
<p>Elimination of internal recharges</p> <p>FY 19</p>	<p>In our July 2019 report we said:</p> <ul style="list-style-type: none"> Internal recharges should be eliminated from the presentation of income and expenditure in the Comprehensive Income and Expenditure Statement. The Council’s process for making the elimination entries is complicated because the coding structure adopted does not enable the finance team to readily identify postings within income and expenditure. Our testing identified charges of £47m which had not been fully netted down. Officers had informed us that there was a similar misstatement in the prior year information (£45m). As this amount is material, the comparative information should be restated to correct this error. <p>These have been corrected in the January 2021 version of the accounts in both the current and prior year comparative information. We discuss judgements relating to prior year restatements from page 30.</p> <p>We will complete our testing of recharges with remaining work on the income and expenditure account.</p>
<p>Cash flow statement</p> <p>FY 19 FY 20</p>	<p>In our July 2019 report we said that the Council, in preparing the cash flow statement, had included Money Market Funds and other pooled investments in cash equivalents and requested that officers perform an assessment of how individual instruments are classified. We subsequently broadened this request to include the classification of instruments on the balance sheet between cash and cash equivalents, current investments and non current investments.</p> <p>Key considerations in relation to cash equivalents are:</p> <ul style="list-style-type: none"> Whether instruments are held to meet short term cash commitments and not for investment Whether instruments are subject to only “insignificant risk of changes in value” <p>The 2018/19 accounts have been updated to exclude pooled investments totalling £20m from cash equivalents at 31 March 2019. In addition, transfers have been made between current and non current investments.</p> <p>Whilst we have received information on the terms of various instruments, we have not received officers’ assessment of their classification. As a result we have not concluded on this area.</p>

Corrected



Corrected



Update on matters reported to the July 2019 meeting

Area	Observation
<p>Accounting policies</p> <p>FY 19</p>	<p>In our report to the July 2019 meeting we said:</p> <ul style="list-style-type: none"> The Council has not taken the opportunity to review its statement of accounting policies so that only important and relevant information is included. As a result the statement includes accounting policies dealing with account balances, or aspects of the accounting, which are immaterial. Accounting policies have not been updated to reflect changes in the Code resulting from the adoption of IFRS 9 or IFRS 15 or updated for a change to accounting standards incorporated into the Code in an earlier year relating to pension accounting. <p>The Council has updated the accounting policies to bring into line with the Code. The accounting policies note is based on example wording published by CIPFA. The Council has removed example wording in a number of areas which deal with matters which are not relevant or which are immaterial. To achieve best practice, there remain opportunities to remove or simplify wording so that the level of detail is proportionate to the significance of the item, but we conclude our initial concerns have been satisfactorily addressed in material respects.</p>
<p>Narrative report</p> <p>FY 19</p>	<p>In our report to the July 2019 meeting we said:</p> <ul style="list-style-type: none"> As a whole, the narrative report was very short The content of the report did not meet the objective of providing information on the authority, its main objectives and strategies and the principal risks that it faces. The report was not fair and balanced as it focused on key achievements in the year without giving similar weight to describing some of the challenges it has faced. KPIs reported focused on volumes, rather than measuring progress towards the meeting the Council's strategic objectives. The report did not highlight and explain the linkages between information presented in the narrative report and the information within the financial statements and in some cases was not consistent with the information within the financial statements. <p>Officers have re-written the Narrative Report to substantially address these points. To further improve compliance with the Code requirements, the Council should consider including a commentary on cash flows during the year and factors that may affect future cash flows.</p>

Corrected

Corrected

Update on matters reported to the July 2019 meeting

Area	Observation
<p>Critical accounting judgments</p> <p>FY 19 FY 20</p>	<p>In our report to the July 2019 meeting, we explained that:</p> <ul style="list-style-type: none"> • IAS 1 requires entities to make disclosures about the assumptions it has made about the future and other major sources of estimation uncertainty at the year end that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. • This is an important disclosure as it helps a user of the accounts assess an entity’s financial position and performance and understand the sensitivities to changes in assumptions. <p>We reported that:</p> <ul style="list-style-type: none"> • Some of the matters reported did not meet the criteria above for inclusion in the disclosure • Some of the specific disclosure requirements had not been met and the information included was not presented in a way that helps users of the financial statements to understand the judgements management makes about the future and about other key sources of estimation uncertainty. <p>Officers have reduced the areas discussed in both the 2018/19 and 2019/20 accounts and the disclosure now deals solely with the valuation of properties and the estimation of the pension liability.</p> <p>Officers have added information about the sensitivity to changes in key assumptions in the pension valuation.</p> <p>In relation to the valuation of properties, officers have added wording to the January 2021 version to refer to a material uncertainty due to the impact of the pandemic – although, as this is a key point, we recommend that this is explained in greater detail. The remainder of the narrative provides a generic explanation, but does not provide further detail, for example, the sensitivity of the valuation of schools land to the assumption on land prices and how the Council has changed its estimate for this in 2018/19.</p> <p>In the version of the 2018/19 accounts circulated to the audit committee for the meeting in May 2020, officers added disclosures dealing with judgements made in applying accounting policies other than those involving estimations. Typically, these disclosures cover significant issues in applying accounting standards where management has had to exercise judgement in situations where a different judgement might have led to a materially different accounting treatment.</p> <p>We challenged officers on whether the items added to the May 2020 version of the accounts (the impact of funding levels due to Brexit; accounting for PFI contracts; the accounting for schools; and the decision on whether to prepare group accounts) involved the application of judgement which was significant enough to warrant disclosure as critical judgements. Officers concluded that they did not and removed these disclosures from the versions of both the 2018/19 and 2019/20 accounts circulated to the January 2021 audit committee meeting.</p>

Corrected

Uncorrected

Uncorrected

Corrected

Update on matters reported to the July 2019 meeting

Area	Observation
<p data-bbox="100 255 324 367">NNDR appeals provision</p> <p data-bbox="100 367 324 494">FY 19 FY 20</p> <p data-bbox="100 686 324 861">Page 36</p>	<p data-bbox="324 255 1982 303">In our July 2019 report, we said that:</p> <ul data-bbox="324 303 1982 670" style="list-style-type: none"><li data-bbox="324 303 1982 351">• The Council has made a provision of £1.3m for appeals made by business ratepayers to their bills.<li data-bbox="324 351 1982 430">• The amount settled in the following year has been significantly in excess of the amount provided in each of the previous two year ends which indicated that the Council may historically have underprovided in this area.<li data-bbox="324 430 1982 542">• In calculating the amount of income to be transferred from the Collection Fund in 2019/20, allowance has been made for a much higher appeals repayment amount which suggested Council may have anticipated claims in excess of the amount provided<li data-bbox="324 542 1982 622">• We had been provided with an analysis prepared by an external adviser which indicates a provision requirement of £8.9m for appeals made against the 2010 Ratings List, of which the Council's share would be £5.8m.<li data-bbox="324 622 1982 670">• No provision has been made for appeals against the 2017 Ratings List. <p data-bbox="324 670 1982 813">In the updated version of the accounts circulated to the audit committee for the January 2021 meeting, officers have increased the appeals provision at 31 March 2019 by £12.8m. This was determined as an amount equal to the Council's share of the reversal of the credit of £20m discussed earlier (resulting in the aggregate of these two adjustments having no impact on the Collection Fund surplus).</p> <p data-bbox="324 813 1982 1053">Whilst a revised provision calculation has not been prepared, the Council has supported its view that the revised provision is reasonable by reference to a comparison with other authorities and to the value of payments made after the balance sheet date. The comparison with other authorities shows that the revised provision remains towards the bottom (but no longer at the extreme) end of the range - but other points on that range might give a provision that was materially higher. The Council's share of the payments made in 2019/20 relating to periods prior to 1 April 2019 is approximately £2m lower than the revised provision, but officers' analysis does not take into account appeals which have been lodged but not yet determined.</p> <p data-bbox="324 1053 1982 1165">The provision in the 2019/20 accounts used information on lodged appeals. The methodology uses an assumption on expected proportion of successful appeals. We have requested information on how this assumption was developed but have not received this.</p> <p data-bbox="324 1165 1982 1244">Together, the information provided suggests that provisions are appropriate in material respects, but further explanation and analysis is needed to pinpoint and support a more precise estimate.</p> <p data-bbox="324 1244 1982 1370">We have noted to officers that the disclosure on movements in the provision in 2019/20 accounts, which shows usage of the provision in 2019/20 of £34m, is inconsistent with information provided on payments made to ratepayers following a successful appeal in 2019/20.</p>



Update on matters reported to the July 2019 meeting

Area	Observation
<p>Pension assets</p> <p>FY 19</p>	<p>In our July 2019 report we said that:</p> <ul style="list-style-type: none"> The actuary had estimated the pension assets and not used actuals The estimate is approximately £28m higher than the Council's share of the net assets shown in the pension fund financial statements. <p>We asked officers to assess the impact of this.</p> <p>In response officers commissioned the actuary to provide an updated actuarial assessment at 31 March 2019 using actuals. The 2018/19 accounts have been updated, resulting in a reduction in the net pension liability of £16.5m.</p>
<p>Other matters originally concluded on in our July 2019 report</p> <p>FY 19</p> <p>Page 37</p>	<p>In our July 2019 report we concluded on the matters which follow. Due to the elapse of time since our previous reporting, we have provided a summary:</p> <ul style="list-style-type: none"> During 2017/18, five grant maintained schools converted to academy status. On conversion, the Council entered into 125 year leases at peppercorn rent which should have resulted in the de-recognition of non-current assets held by those schools. The Council did not capture four of these transactions in preparing the 2017/18 accounts. As a consequence, non current assets were overstated by £76m in the prior year. This has been corrected by restatement of opening balances and comparative information. Our testing of this restatements (as well as the treatment of previous academy transfers) was satisfactory. During the year the Council redeemed its LOBO loan early and paid a premium of £18m. As required by the Code this has been charged in full to the Comprehensive Income and Expenditure Statement but under legislation the charge to the General Fund is being over the term of the original loan with the deferred portion carried forward in the Financial Instrument Adjustment Account. There are no issues arising from our testing. <p>There have been no changes to the position previously reported.</p>

Corrected

Issues arising since the issue of our July 2019 report

Issues arising since in our report to the July 2019 meeting

Area	Observation
Restatement of prior periods	Our initial work during 2019, and subsequent investigations carried out by officers, identified accounting issues impacting on prior periods.

FY 19

Corrected

Page 39

Officers concluded on the basis of these investigations that comparative information for 2017/18 and opening balances at 1 April 2017 and 1 April 2018 should be restated. The table is based on information included in the version of the 2018/19 accounts circulated to the January 2021 meeting and does not reflect further changes which officers propose to make.

Description of restatement	Page ref	Effect on net assets at 1 April 2017		Effect on 2017/18 total comprehensive income		Effect on net assets at 31 March 2018	
		Assets	Liabilities	Income	Expenses	Assets (£m)	Liabilities (£m)
		£m	£m	£m	£m	£m	£m
PPE valuation (Note 1)	29-31	268.9	-	-	15.3	284.2	-
Academy conversion	17	-	-	-	(75.9)	(75.9)	-
Schools cash and other balances (Note 2)	25-26	3.8	(2.2)	(3.5)	(3.8)	(2.5)	(3.2)
Teachers pension	27	-	(9.4)	-	-	-	(9.4)
Leaseholder contributions (Note 2)	22	15.5	6.1	2.2	-	8.1	15.7
Community infrastructure levy	23	12.2	-	(0.3)	-	10.3	1.6
Grant income recognition	34	-	3.7	1.1	-	-	4.8
Bank accounts in credit offset	21	33.7	(33.7)	-	-	7.9	(7.9)
Debtor/creditor classification	21	(2.8)	2.8	-	-	1.1	(1.1)
Offset of internal income and expenses	13	-	-	42.8	(42.8)	-	-
Total		331.3	(32.7)	42.3	(107.2)	233.2	0.5



Note 1: We understand that the restatement for the valuation of PPE includes at 1 April 2017 will be increased to £443m in the final version of the accounts to be circulated to the audit committee with consequent changes to 2017/18. We have not seen information supporting the final positions.

Note 2: These have been amended to the version circulated to the audit committee in January 2021 to correct for inconsistencies between primary statements. We understand that these will be further updated for items identified in our commentary.

We have provided a commentary on the circumstances and accounting issues giving rise to these restatements elsewhere within the report and as referenced in the table.

Issues arising since in our report to the July 2019 meeting

Area	Observation
<p data-bbox="80 252 353 359">Restatement of prior periods (continued)</p> <p data-bbox="80 383 197 497">FY 19</p> <p data-bbox="80 694 145 861">Page 40</p>	<p data-bbox="353 252 2195 295">The decision on whether to restate prior periods typically involves two key areas of judgement.</p> <ol data-bbox="353 303 2195 630" style="list-style-type: none"><li data-bbox="353 303 2195 438">1. Firstly prior period information is only restated where there has been a change in accounting policy or to correct for a material error. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. The first area of judgement can therefore be in determining whether or not an item is a prior period error.<li data-bbox="353 526 2195 630">2. The second area of judgement is whether a prior period error is material. IAS 8.42 requires restatement only of material prior period errors. Immaterial prior period errors shall not be corrected through restatement of comparatives. Officers have decided to correct all prior period errors identified. <p data-bbox="353 638 2195 742">Our principal challenge in relation to this area of judgement was to the selection of an appropriate value per hectare for developed land. We discuss that on page 31.</p> <p data-bbox="353 750 2195 853">Adjustments to the valuation of properties (which we are advised will be £308m at 31 March 2018 and £442m at 1 April 2017 – see page 19) and to derecognise academies at 31 March 2018 (£76m) are 18, 12 and 3 times materiality set for planning purposes, respectively and we regard as material.</p> <p data-bbox="353 861 2195 965">In our report to the audit committee in December 2020, we highlighted this as an area where we would normally expect management to prepare a position paper setting out and explaining their view and requested that this be done. This has not been done and the position on whether other adjustments are individually material involves greater judgement.</p> <p data-bbox="353 973 2195 1031">In the case where more than one prior period error has been identified, the accounting guidance requires consideration of the collective effect of errors, as well as whether they are individually material. Where a material prior period error is being corrected through restatement of comparative balances, this does not automatically mean that any other prior period errors identified should also be corrected regardless of their materiality. However, in this case, in view of the volume and size of other errors identified, we consider the approach taken by officers is, in general, reasonable.</p>

Issues arising since in our report to the July 2019 meeting

Area	Observation
Restatement of prior periods (continued)	<p>We have made provided comments on the principal restatements as cross referenced on page 19. We note the following additional observations on other restatements. Our work on some of these restatements is ongoing:</p> <ul style="list-style-type: none"> • Short term debtors and short term creditors at 31 March 2018 have been restated to correct errors in the mapping of individual general ledger codes, including bad debt provisions incorrectly mapped to short term creditors and components of amounts due to other preceptors for local taxation collected on their behalf not being appropriately grouped and reported in either short term debtors and short term creditors. Whilst the net change to the presentation of the balance sheet is insignificant, officers have concluded that it is appropriate to make these changes due to their impact on individual note lines. We have commented on instances where the mapping remains incorrect. • Provisions have been restated to classify provisions of £2.3m from non current to current at 1 April 2017. It is not clear why this has been done, in particular as the level of actual payments in 2017/18 is much closer to the originally stated position. • There were inconsistencies between the primary statements in the restatement note in the version circulated to the January 2021 audit committee meeting. We understand these will be resolved in the version to be circulated to the April 2021 meeting. • Short term debtors and short term creditors have been restated at 1 April 2017 to include internal loans of £2.2m between the Council and individual schools. This restatement is not correct as they are internal balances which should be eliminated on consolidation of the schools into the Council's accounts. • The Council holds many bank accounts, some of which are in a debit (asset) position and some in a credit (liability) position. In the past the Council has presented the net position in cash and equivalents, offsetting credits against debits. Under the accounting rules, the Council can offset assets and liabilities only if it has a legally enforceable right to do so and intends to exercise the right of set-off (i.e. to settle net), or to settle simultaneously. In this case, the Council only has a legally enforceable right to offset certain of its accounts and not all and is also not able (because of the way the accounts are operated) to assert that it intends to settle net. The way in which the restatement has been calculated does not take into account this second condition.

FY 19

Page 41



Uncorrected

Uncorrected

Corrected

Uncorrected



Issues arising since in our report to the July 2019 meeting

Area	Observation
<p>Recognition of income from major works</p> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="background-color: #4CAF50; color: white; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center;">FY 19</div> <div style="background-color: #2196F3; color: white; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center;">FY 20</div> </div>	<p>In the initial version of the 2018/19 accounts, as well as in accounts for previous years, the Council applied its revenue recognition policy in the following way to major works income:</p> <ul style="list-style-type: none"> • Entries were recorded on invoicing. For works completed prior to 31 March 2017, invoicing occurred once the works were complete and final accounts agreed with contractors. For works completed from 1 April 2017, invoicing occurred at the start of the year in respect of the works planned for the year ahead with a second, invoice after the year end to true-up to the actual spend in the year. • Revenue was deferred within capital grants in advance and recognised on receipt of cash. <p>Under IFRS 15 Revenue from contracts with customers, revenue is either recognised over time or at a point in time depending on an analysis of how performance obligations in the contract are satisfied. In this case, the obligation to carry out the works is satisfied over time and therefore contributions should have been recognised as spend on the capital project was incurred.</p> <p>The accounts for 2018/19 have been amended to bring into line with this treatment:</p>

Page 42

Description of restatement	Effect on assets at 1 April 2017	Effect on 2017/18 income	Effect on assets at 31 March 2018	Effect on 2018/19 income	Effect on assets at 31 March 2018
	£m	£m	£m	£m	£m
Leaseholder contributions	21.6	(1.7)	23.8	5.8	29.6

In addition an adjustment was made to the initial version of the 2019/20 accounts published in August 2020 to increase accrued income by £4.1m.

The previous accounting standard required the use of the percentage of completion method when accounting for the rendering of services and therefore, in practical terms, resulted in the same accounting treatment as under IFRS 15. As a result, the change does not result from the transition to IFRS 15 but, instead, from the incorrect application of the Council’s revenue policy to this transaction stream. This means that the change has needed to be dealt with by restating comparative information and opening balances and not through the modified retrospective approach under which comparative information is not restated.

We have performed procedures including:

- Re-calculating restated accrued income at 1 April 2017, 1 April 2018 and 31 March 2019 for a sample of leaseholders, agreeing inputs to that calculation to records of individual and block gross values and capital expenditure records and testing whether recognition principles have been correctly applied, based on the timing of the related capital expenditure.
- Testing the completeness of income recorded in 2017/18 and 2018/19 by tracing from the items in the capital programme to income records for the relevant year.

These procedures were performed without exception.

Issues arising since in our report to the July 2019 meeting

Area **Observation**

Recognition of community infrastructure levy

FY 19 FY 20

The Code provides the following guidance on the recognition and presentation of community infrastructure levy:

- Revenue should be recognised when payment is due under the relevant legislation, which is on commencement of the development
- Where the authority is collecting on behalf of the charging authority (in London, for the Mayor of London), amounts collected do not form part of the revenue of the collecting authority and should be carried in creditors until paid over to the charging authority.

Our sample testing as part of the 2018/19 audit identified errors in the recognition of community infrastructure levy. These errors arose because the Council’s practice had been to recognise income on invoicing which frequently did not coincide with commencement date for the development. The position was made worse by delays, sometimes substantial, in invoicing. Whilst these, in turn, arise from delays in receiving information from developers, officers have recognised that there are actions which can be taken to accelerate the process and have developed an improvement plan to do so.

In response to our initial findings, officers have undertaken an exercise to review all transactions. As it was apparent that this issue also impacted on prior periods, the exercise covered the period from 1 April 2017 and resulted in the following adjustments to 2018/19 and 2017/18:

	Effect on net assets at 1 April 2017	Effect on 2017/18 income	Effect on net assets at 31 March 2018	Effect on 2018/19 income	Effect on net assets at 31 March 2018
	£m	£m	£m	£m	£m
Community infrastructure levy	12.2	(0.3)	10.3	7.9	19.8

Officers also identified developments which had commenced during 2019/20 where income had been omitted from the initial version of the accounts published in draft in August 2020. This resulted in an additional accrual of income at 31 March 2020 of £31.1m which was incorporated into the version presented to the audit committee in April 2021.

Our testing of the updated accounts for 2018/19 and 2019/20 included:


- Understanding the Council’s process for capturing and recording the commencement of developments
- Testing accrued income at 1 April 2017, 31 March 2018, 31 March 2019 and 31 March 2020 to commencement notices, invoice and subsequent receipt of cash
- Testing income in 2018/18, 2018/19 and 2019/20 to commencement notices, invoice and subsequent receipt of cash
- Tracing a sample of developments from the Exacon system (used to record information on projects which have commenced) to income records.

This testing identified two, further errors:

- The incorrect accrual of income of £3.3m at 31 March 2020 relating to levy collected on behalf of the Mayor London which is therefore not income of the Council.
- The incorrect accrual of income of £2.8m at 1 April 2017 relating to a development which did not commence until 2017/18.

Corrected

Issues arising since the issue of our July 2019 report

Area	Observation
<p data-bbox="80 295 313 582">Indemnity given to Tower Hamlets Homes Limited in respect of future pension costs</p> <div data-bbox="80 590 313 702">  </div> <p data-bbox="80 702 313 861">Page 44</p>	<p data-bbox="313 295 2072 367">Staff who transferred from the Council to Tower Hamlets Homes Limited (THHL) continued to be members of the Local Government Pension Scheme administered by the council.</p> <p data-bbox="313 375 2072 446">At that time, the council entered into a management agreement with THHL in which it agreed to meet the cost of benefits accrued by transferring employees up to the date of their transfer.</p> <p data-bbox="313 454 2072 558">On 31 March 2009, the then Corporate Director, Resources appears to have extended this obligation by writing to the Board of THHL and agreeing that the Council “indemnifies THHL in respect of all liabilities that have arisen or may arise from pension obligations”.</p> <p data-bbox="313 566 2072 766">On the basis of this letter, the Council has recorded a pension liability equal to the full amount of the liability relating to the THHL section of the London Borough of Tower Hamlets Pension Scheme (i.e. the liability recorded relates to the cost of settling benefits accrued from individuals’ service both before and after their transfer to THHL). In turn, THHL has recorded both a liability and reimbursement asset of the same amount. Using statutory mitigation arrangements, the relevant revenue account (in this case the Housing Revenue Account) is being charged as contributions become payable, rather than as benefits are earned by individuals.</p> <p data-bbox="313 774 2072 845">Pension benefits which have accrued relating to individuals’ service with the Council prior to their transfer to THHL represent post-employment benefits and are accounted for in the same way as pension benefits provided to other Council staff.</p> <p data-bbox="313 853 2072 989">Conversely, pension benefits which individuals have accrued in respect of service rendered after their transfer to THHL do not represent employee benefits from the perspective of the Council. This is because they do not arise from service rendered to the Council (or the individual’s termination) – instead they arise from the commercial arrangements put in place between the Council and THHL.</p> <p data-bbox="313 997 2072 1101">As a result, benefits accruing after an individual’s transfer date fall outside the scope of IAS 19 Employee Benefits and should instead be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The consequences of this analysis are, in relation to the part of the liability attributable to post transfer service, that:</p> <ul data-bbox="313 1109 2072 1396" style="list-style-type: none"> • The liability should be classified within Provisions on the balance sheet and not under Liability related to defined benefit pension scheme. • The liability should be quantified using the measurement rules of IAS 37 which are different to IAS 19. • Entries to the Comprehensive Expenditure and Income Statement should be calculated and presented on a different basis to that currently reflected. • Statutory mitigation arrangements do not apply. As a result, the full amount of the provision should be charged to the Housing Revenue Account and subsequent changes in the provision charged or credited to the Housing Revenue Account. <p data-bbox="313 1404 2072 1501">We are not able to quantify the adjustments needed as an exercise has not been performed to split the pension liability between amounts attributable pre and post transfer service and to re-measure the part attributable to post transfer service under IAS 37.</p>



Other matters (continued)



Issues arising since in our report to the July 2019 meeting

Area	Observation										
<p>Cash at bank - schools</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid green; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; text-align: center;">FY 19</div> <div style="border: 1px solid blue; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; text-align: center;">FY 20</div> </div>	<p>Officers identified errors in relation to the recording of cash and other transactions involving schools.</p> <p>We have explained our work and findings in this area in more detail as we are aware that this has been an area of focus for the audit committee.</p> <p>These issues arose because of:</p> <ul style="list-style-type: none"> • The complex system of entries used to record disbursements and other flows between the Council and individual schools • The use of only a single general ledger control account within the main Council ledger to record the balances for some seventy different bank accounts together with, we understand, a failure to perform a full reconciliation between the general ledger control account on the one hand and the total of the reconciled cash books for the individual schools on the other. <p>The Council has spent time investigating the accounting for transactions with schools, which has been complicated by the complexity of the postings. The changes reflected in the current version are:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #92d050;"> <th style="text-align: left;">£m – net assets</th> <th style="text-align: right;">31 March 2020</th> <th style="text-align: right;">31 March 2019</th> <th style="text-align: right;">31 March 2018</th> <th style="text-align: right;">1 April 2017</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">Change from previously published version of 2017/18 accounts or original version of the 2018/19 and 2019/20 accounts</td> <td style="text-align: right;">(1,149)</td> <td style="text-align: right;">(9,669)</td> <td style="text-align: right;">(5,714)</td> <td style="text-align: right;">1,568</td> </tr> </tbody> </table> <p>Our procedures have focused on changes to cash balances and has included:</p> <ul style="list-style-type: none"> • Discussion of the nature of changes made between original and final versions of the accounts • Requesting a full reconciliation between the general ledger control account and the individual reconciled cash book balances • Performing procedures to test the completeness of cash book amounts included in that reconciliation • Performing tests on the reconciled cash balances on a sample basis. <p>At the time of writing we are waiting for information in relation to changes made to other account balances in relation to schools postings.</p>	£m – net assets	31 March 2020	31 March 2019	31 March 2018	1 April 2017	Change from previously published version of 2017/18 accounts or original version of the 2018/19 and 2019/20 accounts	(1,149)	(9,669)	(5,714)	1,568
£m – net assets	31 March 2020	31 March 2019	31 March 2018	1 April 2017							
Change from previously published version of 2017/18 accounts or original version of the 2018/19 and 2019/20 accounts	(1,149)	(9,669)	(5,714)	1,568							



Other matters (continued)

Issues arising since in our report to the July 2019 meeting

Area	Observation
Cash at bank – schools (continued)	<p>We found that:</p> <ul style="list-style-type: none">• There are differences between the reconciled cash position and amended general ledger control account balance of £699k, £934k, £2,625k and £1,560k at 31 March 2020, 31 March 2019 and 31 March 2018 and 1 April 2017 respectively.• In relation to correcting journals posted to the general ledger control account, it was apparent because of the difference to reconciled cash books that the correcting journals made so far are incomplete and we have therefore we performed no further work.• The reconciled cash position incorrectly included amounts due from HMRC of £1,246k, £1,644k, £1,189k and £1,499k at 31 March 2020, 31 March 2019, 31 March 2018 and 1 April 2017, respectively. Officers have informed us that these amounts relate to input tax on schools expenditure for the final month or two months of each year which are to be reclaimed from HMRC. On this basis, these amounts should be classified in short term debtors and not in cash and cash equivalents. Officers' investigation also found that, as a result of an oversight, amounts relating to Feb/March 2020, Feb/March 2019 and Feb/March 2018 input tax had not been subsequently reclaimed and remain outstanding. The explanation provided suggests that these amounts should accumulate over the period, but this is not reflected in the position currently reflected in officers' analysis. Officers also believe that it may not now be possible to claim the full amount as records may be incomplete.• Our sample of reconciling items in individual cash book reconciliations identified a high rate of error (approximately half at 31 March 2020 and 31 March 2019), where payments were deducted from the cash balance before their release, resulting in the understatement of both cash and short term creditors or included invalid entries and should be released to income. Officers have not quantified the error and therefore no adjustment has been made. The amount of unrepresented cheques and BACS is £2,348k, £8,127k, £7,309k and £25,712k at 31 March 2020, 31 March 2019, 31 March 2018 and 1 April 2017, respectively, representing the maximum amount of error at each reporting date.
 	<p>In view of the uncertainty over the correct balance, we have not proposed an adjustment but will evaluate the impact of the uncertainty on the scope of our audit and on our opinion in aggregate with other issues identified.</p>



Other matters (continued)

Issues arising since in our report to the July 2019 meeting

Area	Observation
<p>Unfunded pension obligations</p> <p>FY 19</p>	<p>Where an authority chooses to enhance the pension entitlement of an employee in the Local Government Pension Scheme or Teachers Pension Scheme, the authority and not the scheme is responsible for payment of additional benefits. The liability to make these additional payments is recognised when the additional benefits are awarded, resulting in the recording of an additional pension liability on the balance sheet.</p> <p>Authorities have typically made such awards linked to early retirement schemes. We challenged officers on why the Council had not recorded a separate liability on its balance sheet.</p> <p>The Council does not make any direct payments in relation to the local government pension scheme as this liability was previously settled through a lump sum payment.</p> <p>A provision of £9.1m has been made at 31 March 2019 in respect of future payments to teachers. As this obligation has been in existence for several years, the omission of this liability from the balance sheet represents an error in prior periods. Officers have corrected this misstatement by restating comparative information and opening balances (see page 30 for further comments on restatement of prior periods).</p>
<p>Disclosures relating to higher paid employees</p> <p>FY 19 FY 20</p>	<p>The Code requires disclosure of the number of employees receiving remuneration of more than £50,000 in bands of £5,000. As part our preliminary procedures, we gained an understanding of the Council’s process for compiling this disclosure. We identified that the disclosure is prepared from reports extracted from the Council’s payroll system. Whilst a number of schools use the corporate payroll arrangement, over twenty schools have made arrangements with external providers for payroll processing. As a result, higher paid employees at schools which have opted out of the corporate payroll arrangement have been wrongly excluded from the disclosure.</p> <p>Officers have updated the disclosure to include an additional 612 employees paid over £50,000 (a 78% increase over the number of staff originally disclosed). The method of compilation was the same in the prior year. Officers have also therefore restated comparative information, increasing the number of higher paid employees by 240 (or 32%).</p> <p>In view of the quantum of the change and the closer interest some users of the accounts have in this information, we agree with officers that the prior year error is material and the comparative information should therefore be restated. Where a material prior period error is corrected, the Code requires disclosure of the nature of the error. This has not been done.</p> <p>Officers have prepared the revised disclosures based on payroll reports submitted by the schools using outsourced providers. For a number of schools there are large variances between the total of these reports and total staff costs in returns submitted by those schools and consolidated into the accounts. We have requested information on how officers have assurance over the completeness and accuracy of the payroll reports in the light of the unreconciled differences and will complete our testing once we have this.</p>

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4 Update on significant audit risks identified in our 2018/19 and 2019/20 audit plans

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Update on significant audit risks included in our 2018/19 and 2019/20 audit plans

Risk

Valuation of properties

The Council is required to hold property assets within Property, Plant and Equipment at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

FY
19




FY
20

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Status update

Update on the design and implementation of key controls

The valuation of properties has not been well controlled. Whilst the Council is taking steps to remediate the position, the following significant control deficiencies were present in the production of both 2018/19 and 2019/20 original draft statements of accounts:

- The Council did not have controls to ensure that information provided to the valuer for the purpose of his valuation was complete and accurate and the design of controls over subjective inputs to the valuation is not clear. 
- The valuer's report does not provide a commentary on changes in the overall valuation amount compared to previous valuation and, internally, a summary has not been prepared to inform management review. At a more detailed level, we have not been able to obtain documentation to be clear on how changes in individual asset values have been scrutinised and followed up with the valuer. This would require formalising the criteria for selection of individual asset values for investigation, consistently applying these criteria and then documenting the conclusion on exceptions for review and approval. 
- The calculation and recording of entries relating to the valuation is performed in the fixed asset register. The fixed asset register is maintained on an excel spreadsheet. Typical spreadsheet controls we would expect to see over the design and maintenance of a spreadsheet used for the initiation and recording of significant financial transactions have not been adopted. 

Update on our substantive audit procedures

Our testing and subsequent investigations carried out by officers has identified a number of issues.

Developed land areas for schools (i.e. the footprint of the buildings together with ancillary built on land such as playgrounds and car park): We requested information on building and land areas used in the valuation during our original field visit in June 2019 for the purpose of the 2018/19 accounts audit. Officers' follow-up to this request identified the following:

- This data was generated by the valuer, rather than by the Council.
- We understand that the areas used for the original valuation at 31 March 2019 were derived from either the building footprint or gross development value of the building, but did not receive a complete explanation.
- The areas used in the original valuation varied significantly to the actual developed land area.
- The developed land areas used at 31 March 2018 are the same as those used in the original valuation at 31 March 2019
- The valuation at 31 March 2017 did not use separate assumptions for land areas and value per hectare – instead values for developed land were derived as a percentage of the gross development value of the building.

Update on significant audit risks included in our 2018/19 and 2019/20 audit plans

Risk	Status update
<p>Valuation of properties (continued)</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 2px solid green; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; text-align: center;">FY 19</div> <div style="border: 2px solid blue; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; text-align: center;">FY 20</div> </div>	<p>In the light of these enquiries, officers:</p> <ul style="list-style-type: none"> • Obtained updated valuations at 31 March 2019 and 31 March 2018 using the actual land areas measured by the valuer. • Adjusted the carrying value of other land and building at 31 March 2019 and restated the carrying value at 31 March 2018 for the new valuations in the April 2021 version of the accounts. • Prepared the 2019/20 accounts using a valuation at 31 March 2020 based on the actual land areas. <p>Our valuation specialists have re-performed the measurement of a sample of the revised land areas and did not identify any issues.</p> <p>Where a material error is identified in prior period information, the information needs to be corrected for the earliest period presented (in the case of the 2018/19 accounts, back to 1 April 2017):</p> <ul style="list-style-type: none"> • Whilst we do not fully understand how the valuer arrived at the developed land areas used in the valuation at 31 March 2018, they are significantly less than either actual areas. We have therefore agreed with officers that the original data was incorrect; that the change between original and revised valuations therefore represents a material error in the prior period accounts; and that it is therefore appropriate to correct by restating opening balances and comparative information. • In relation to the valuation at 31 March 2017, we do not agree that the approach taken in the original valuation of developed land was appropriate. We have therefore agreed with officers that the April 2021 version of the statement of accounts will be further updated to restate the opening balance sheet at 1 April 2017. <p>Schools building areas: The valuation of school buildings uses information on their gross internal area. That data is provided by the Council to the valuer. We requested information to support a sample of building areas. Officers have informed us that they:</p> <ul style="list-style-type: none"> • Have identified discrepancies with site plan information for the sample items selected by us and in the light of this, extended their investigation to cover the building areas for all schools • Estimated the impact of all errors identified at 31 March 2020, 31 March 2019, 31 March 2018 and 1 April 2017 respectively. • Propose to adjust the accounts to correct for these errors. <p>As the information on this further adjustment was provided at the time of preparing this report, we have not yet tested this information.</p> <p>The presence of past errors is indicative of insufficient consideration in prior years as to whether the site areas were appropriate for the Modern Equivalent Asset.</p>

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Update on significant audit risks included in our 2018/19 and 2019/20 audit plans

Risk	Status update
Valuation of properties (continued)	<p>Price per hectare for developed land at schools: The valuation of land used in preparing the published accounts for 2017/18 assumed a value of £17.8m per hectare for developed land. The same assumption was used for the valuation at 31 March 2019 in the initial version of the 2018/19 accounts.</p> <p>In the updated version of the 2018/19 accounts submitted to the audit committee in May 2020, the valuation at 31 March 2018 and 31 March 2019 were both updated for a change in the assumption from £17.8m to £11.1m per hectare.</p> <p>We challenged officers on the basis for the change in assumption and for considering this to be a prior period error. Following further discussion with the valuer, we concluded that this was a change in estimate, rather than the correction of an error, and in the version of the 2018/19 submitted to the January 2021 audit committee meeting, the restated carrying amount has been updated to reflect the original price of £17.8m per hectare.</p> <p>We found:</p> <ul style="list-style-type: none">• Based on research carried out by the valuer and other information considered by our valuation specialist, transaction values are highly dependent on the density of the subsequent development and we have concluded that both original and revised price per hectare both fall within the wide range of observed market prices.• The transactions which the valuer has relied on for the lower price per hectare relate to market transactions completed after the date of approval of the 2017/18. <p>We therefore agreed with officers that this was a change in accounting estimate and not an error and therefore whilst it was appropriate to use this assumption at 31 March 2019, prior periods should not be restated for this.</p> <p>Properties not subject to valuation at the reporting date: The Code does not require properties to be revalued on an annual basis, but does require valuations to be carried out where there has been a material change.</p> <p>The Council assesses whether there has been a material change over the financial year through its review of the market review report commissioned from its valuer. On the basis of this review, officers have concluded that there has not been a material change in the value of non dwelling properties which were not subject to valuation at the year end. The Council has not determined the level of change it considers to be material or evaluated the possible cumulative change since the date of the last valuation of properties (noting that for some properties this is earlier than the start of the financial year). We have requested this assessment to be prepared before we finalise our conclusion.</p>



Update on significant audit risks included in our 2018/19 and 2019/20 audit plans

Risk	Status update
<p>Valuation of properties (continued)</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 2px solid green; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; text-align: center;"> <div style="color: white; font-weight: bold; font-size: 10px;">FY</div> <div style="color: white; font-weight: bold; font-size: 12px;">19</div> </div> <div style="border: 2px solid blue; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; text-align: center;"> <div style="color: white; font-weight: bold; font-size: 10px;">FY</div> <div style="color: white; font-weight: bold; font-size: 12px;">20</div> </div> </div>	<p>Identification of Council's interest in properties: Other procedures performed in support of our work on the valuation of properties, but which did not form part of the significant risk, included testing whether properties were in operational existence, the Council had title to the asset and where subject to a lease, this had been taken into account in the valuation. This testing identified the following exceptions:</p> <ul style="list-style-type: none"> Two assets were surplus, but were classified in other land and buildings within the Property, Plant and Equipment note. In addition to the disclosure misstatement, surplus assets are required to be valued on a different basis, which reflects the property's highest alternative use, rather than its existing (or previous) use. The Council has obtained new valuations for these properties on the correct valuation basis which has resulted in changes in their previously recorded values at 31 March 2020 of £14.3m (increase) and £1.8m (decrease). As the properties have been surplus for a number of years, the Council has also obtained revised valuation at earlier reporting dates. The accounts for both years have been updated for these changes, including restatement of comparative information. We have asked officers how they are assured that there are no other surplus assets included in operational categories, but have not yet seen information relating to this. One property which was recorded twice on the fixed asset register (once in its current use and once in a previous use), resulting in the overstatement of other land and buildings by £2.4m. Again, this error impacts on earlier reporting dates. The accounts for both years have been updated for these changes, including restatement of comparative information. We have again asked officers to provide information on how they are assured that all properties are in operational existence. Three properties which are registered in the name of a predecessor body and not the Council. We have seen documentation which demonstrates that these assets previously transferred to the Council and recommend that the registration is brought up-to-date. One property where a lease has been granted over part of the property. The lease had been taken into account by the valuer, but following enquiries of the valuer, we are satisfied that the impact on the valuation is clearly trivial.

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Update on significant audit risks included in our 2018/19 and 2019/20 audit plans

Risk

Status update

Valuation of properties (continued)



Other findings and observations relating to the valuation: We have the following additional findings and observations regarding the valuation process and outcome:

- As specialised assets, schools are valued on a depreciated replacement cost basis as market information is not available. This approach involves the application of the Modern Equivalent Asset principle. In relation to land, this means selecting and valuing a hypothetical site which represents the least expensive site in size and location that would realistically be suitable and appropriate for the replacement facility – rather than valuing the land on which the existing building sits. In practice it is not uncommon for actual land areas to be used.
- In valuing the York Hall Leisure Centre, the valuer has deferred both the net replacement cost and land values for three years at 7%, to reflect the fact there is a lease in place, with an unexpired term of three years, at a peppercorn (i.e. nil), rent. The lease is granted to an operator and is in substance a service agreement which we would expect to be disregarded for valuation purposes and vacant possession assumed. The impact is to undervalue the asset by £2.0m.

We have requested the Council verify with the valuer whether there are similar circumstances where the same approach has been taken.

- There are several non school assets where the valuation has increased as consequence of changes in floor area information which the Council had provided to the valuer.

We have requested the Council verify that these changes reflect extensions or other changes to the occupied space since the last valuation, rather than the correction of an error in previous information.

- RICS guidance requires valuation reports to “clearly and accurately set out the conclusions of the valuation in a manner that is neither ambiguous nor misleading, and which does not create a false impression”. The report is not clear in a number of respects. For example, there is no summary in the report setting out what is included in the overall valuation and the aggregate value for each category of asset valued. Nor is there any linkage to the appropriate supporting information and valuation spreadsheets. This makes it impossible for the reader of the report to understand what has been valued without further direct enquiry of the valuer. Also two valuation dates have been adopted, but the report does not clarify which assets have been valued at each of the respective valuation dates. The guidance requires that a commentary is given in relation to the possible differences between Existing Use Value and Market Value. This has not been provided.

We recommend the Council take up these points with the valuer for the purpose of the 31 March 2021 valuation and request updates to future reports where matters are not clear.



Update on significant audit risks included in our 2018/19 and 2019/20 audit plans

Risk	Status update
<p>Capitalisation of expenditure</p> <p>The Council has a substantial capital programme, including revenue expenditure which, for funding purposes, is treated in the same way as capital expenditure (REFCUS).</p> <p>Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.</p> <p>The Council has greater flexibility over the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital.</p> <div data-bbox="80 989 313 1101"> </div>	<p>Update on the design and implementation of key controls</p> <p>As reported in our July 2019 report, we were not able to identify a documented internal control to prevent or detect the incorrect classification of revenue spend as capital.</p> <p>We have not been provided with this information in relation to our 2019/20 audit.</p> <p>Update on our substantive audit procedures</p> <p>We selected a sample of capital items (including REFCUS) in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.</p> <p>Our work is not yet concluded as we have not yet received satisfactory responses to queries or requests for information on some sample items.</p> <p>Whilst we have so far not identified any sample items which we have concluded are revenue items which have been incorrectly classified as capital, we have identified the following other issues:</p> <ul style="list-style-type: none"> • An item of £276k was incorrectly coded to a school which had previously converted to an academy, rather than a school which remained under the control of the Council. This resulted in the amount being accounted for as REFCUS and expensed, rather than being capitalised. If the error rate in our sample was found in the remainder the population, this would give an error of £16m. • Expenditure relating to refurbishments included expenditure on fixtures, fittings and equipment, but was classified in its entirety within other land and buildings. Our inspection of assets included within fixtures, fittings and equipment, which is substantially limited to previous purchases of refuse collection vehicles, suggests that this practice is common and has operated for a number of years. In addition to the impact on disclosure information, the practical consequence of coding expenditure on fixtures, fittings and equipment in this way is that the expenditure will be written out of the Property, Plant and Equipment balance when next subject to valuation where the type of expenditure falls outside the scope of what is considered by the valuer in their valuation. We have not yet received officers' assessment of this point.



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Update on significant audit risks included in our 2018/19 and 2019/20 audit plans

Risk

Recognition of grants and contributions

Recognition of grant income and contributions is not inherently complex and does not involve significant judgement and was not, as a result, identified as a significant audit risk in our audit plan for 2018/19. However, following issues identified in our initial testing in 2018/19, we identified as a significant audit risk in our 2019/20 audit plan. The errors principally arose as a result of applying the wrong recognition basis, but also because of inadequate control over the reconciliation of control accounts. We will consider what additional work, if any, is needed in relation to the 2018/19 once our originally planned work is complete.

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FY
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Status update

Update on the design and implementation of key controls

The Council has prepared and shared with us process notes in relation to grant income and contributions. We are not clear from these what controls operate within this process to ensure that grant income and contributions are recognised in the correct period and in practice errors have been identified in both 2018/19 and 2019/20.

Update on our substantive audit procedures

We selected a sample of grants and contributions and tested whether they had been recognised in the correct period. Separate selections were made in relation to leaseholder contributions to major works and community infrastructure levy and the findings from that work is discussed in the previous section and are not covered here.

Our testing of amounts recorded in the initial version of the 2018/19 accounts identified that an overspend on dedicated schools grant of £5.1m had been inappropriately carried forward on the balance sheet; and recognition of the unspent part of allocation of Flexible Homelessness Support Grant of £5.2m had been deferred, although there were no conditions preventing its recognition. In response to these findings, officers performed an exercise to review all accrued and deferred grant balances at 31 March 2019 and earlier reporting dates. The accounts have been amended (including the restatement of comparative information) to correct for the results of our initial testing and officers review resulting in a net release from the balance sheet to grant income at 31 March 2019, 31 March 2018 and 1 April 2017 of £2.7m, £4.8m and £3.7m respectively.

Our testing of updated breakdowns for 2018/19 and on breakdowns for 2019/20 is not complete as information or explanations for some sample selections is outstanding.

Our findings to date include the following:

- The Council has recorded the incorrect amount of "business rate related grant" in 2019/20 because an entry of £2.4m to true-up the initial 2017/18 allocation to bring income into line with the final calculated entitlement amount was not accrued at 31 March 2018 or 31 March 2019. This resulted in an understatement of short term creditors at 31 March 2018 and 31 March 2019 and an understatement of income in 2019/20.



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Update on significant audit risks included in our 2018/19 and 2019/20 audit plans

Risk	Status update
<p data-bbox="76 255 481 367">Recognition of grants and contributions (continued)</p> <div data-bbox="76 367 291 478"> </div>	<ul data-bbox="481 255 1942 643" style="list-style-type: none"><li data-bbox="481 255 1942 526">• In addition to the release of deferred income relating to the Flexible Homelessness Support Grant, the Council has released previously deferred amounts at 31 March 2019, 31 March 2018 and 1 April 2017 of £2.2m, £1.0m and £0.8m, respectively. These include the release of amounts where the officers have been unable to locate information relating to the original grant and in the absence of information or record of subsequent contact from the grant funder have formed the view that there are no remaining conditions. The approach is not unreasonable, but there is a residual risk that there are remaining conditions to be fulfilled (and/or amounts may not be applied in accordance with the wishes of the grant funder).<li data-bbox="481 526 1942 643">• Amounts of £2.1m carried in short term debtors at 31 March 2018 in relation to the PFI grant. As all amount are paid in year, we would not expect there to be a remaining balance on this account and therefore proposed an adjustment to write-out this amount.

Uncorrected

5. Impact of the covid-19 pandemic on the statement of accounts and our audit

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Impact of the covid-19 pandemic on the statement of accounts and our audit

Issue	Potential Impact on annual report and financial statements
<p>Requirements</p> <div style="display: flex; justify-content: space-around;"> <div style="border: 2px solid green; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; text-align: center;"> <p style="margin: 0;">FY 19</p> </div> <div style="border: 2px solid blue; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; text-align: center;"> <p style="margin: 0;">FY 20</p> </div> </div>	<p>CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.</p> <p>Entity-specific explanations of the current and expected effects of COVID-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.</p> <p>As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.</p>
<p>Actions</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 58</p>	<p>A thorough assessment of the current and potential future effects of the COVID-19 pandemic is required including:</p> <ul style="list-style-type: none"> • A detailed analysis across the council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves; • The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); • Any material uncertainties relating to the council's financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and • The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
<p>We have considered the key impacts on the business such as:</p> <ul style="list-style-type: none"> • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in fees and charges. • The closure of facilities and premises. 	<p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:</p> <ul style="list-style-type: none"> • Principal risk disclosures • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Bad debts provision policy • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses 	<p>We have considered the impact on the audit including:</p> <ul style="list-style-type: none"> • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel.

Impact of the covid-19 pandemic on the statement of accounts and our audit

Issue	Potential Impact on annual report and financial statements	Audit response
<p data-bbox="78 327 324 422">Impact on property, plant and equipment</p> <p data-bbox="78 438 190 550">FY 20</p> <p data-bbox="78 726 145 901">Page 59</p>	<p data-bbox="392 327 952 614">The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and has required specific disclosure in the financial statements.</p>	<p data-bbox="952 327 2110 454">The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value using market information, the Council considered with their valuers the impact that COVID-19 has had on current value.</p> <p data-bbox="952 486 2110 614">The accounts include the following disclosure: "In particular, arising from the potential impact of the Covid-19 pandemic on property values, their valuations are reported on the basis of "material valuation uncertainty". As explained in section 2, we recommend that this is further explained and given greater prominence.</p> <p data-bbox="952 646 2110 805">In view of the significance of this matter (and as is common with local authorities and other reporters with 31 March 2020 year end and significant property portfolios carried at market based valuations) we will include an additional paragraph drawing attention to the uncertainty and the Council's disclosure. The expected wording of this audit report modification is as follows:</p> <p data-bbox="952 837 2110 901">"Emphasis of matter: Material uncertainty related to the valuation of the Council's land and buildings</p> <p data-bbox="952 901 2110 997">We draw attention to note 4, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's land and buildings.</p> <p data-bbox="952 1029 2110 1189">As noted by the Council's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the land and buildings at the balance sheet date. Our opinion is not modified in respect of this matter".</p>

Impact of the covid-19 pandemic on the statement of accounts and our audit

Issue	Potential Impact on annual report and financial statements	Audit response
<p>Impact on pension fund investment measurement</p> <p>FY 20</p>	<p>As a result of the COVID-19 pandemic pension fund investments have been subject to volatility.</p>	<p>The audit of the pension assets of the London Borough of Tower Hamlets scheme is ongoing and is the subject of a separate report to this meeting.</p>
<p>Expected credit losses and bad debt provisions</p> <p>FY 20 Page 60</p>	<p>Under the expected credit loss model for financial instruments, the Council needs to provide for expected credit losses based on the unprecedented conditions at the balance sheet date.</p> <p>The impact of conditions at the balance sheet on future cash flows for other receivables balances which are not financial instruments also needs to be</p>	<p>The Council has principally estimated bad debt provisions by applying percentages to categories based on age.</p> <p>We have requested information on how percentages selected have been derived and/or how they compare to past experience. We have received information in respect of Council Tax and Business Rates but the data is not at a level of detail which allows us to test whether it is accurate. We have not received information for other types of receivables.</p> <p>With one minor exception the Council has not modified its approach or assumptions in the light of the pandemic or explained why this is not required.</p> <p>IFRS 9 as adopted by the Code requires substantial disclosures to measure both quantitative and qualitative information about amounts arising from expected credit losses and credit risk exposure. We consider further information should be provided in relation to the Council's investments.</p>



Uncorrected

Impact of the covid-19 pandemic on the statement of accounts and our audit

Issue	Potential Impact on annual report and financial statements	Audit response
<p>Covid-19 related income received pre year end</p> <p>FY 20</p>	<ul style="list-style-type: none"> There were 2 main receipts of income related to Covid-19 that were received pre 31 March 2020 <ul style="list-style-type: none"> Covid-19 LA Support grant. This was the first tranche of £1.6bn passed out to Councils by MCHLG on March 27 2020. The Council received £10.4m. This grant was unringfenced and without conditions and therefore should be recognised in income with any unspent amounts carried in reserves. S31 Business Rates relief grant. This brought forward the receipt of business rate reliefs to ease cash flow pressures that would otherwise have been distributed over the course of 2020/21. The Council received £10.4m. The Council is required to report on this matter and the government can reclaim overpaid sums. It is correct to recognise this grant in receipts in advance (creditors) to release the income over the course of 2020/21. 	<ul style="list-style-type: none"> These grants have been correctly recognised or deferred. As the covid-19 grant is unringenced it should be presented with the "Taxation and non-specific grant income" line. In the original version of the 2019/20 accounts it was presented as part of the net cost of services. This has now been corrected.
<p>Narrative and other reporting issues</p> <p>FY 19 FY 20</p>	<p>The following areas need to be considered by local authorities as having being impacted on by the COVID-19 pandemic.</p> <ul style="list-style-type: none"> Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities. 	<p>The narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.</p>

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Update on our work on the value for money conclusion

Page 62

Update on value for money work



In our July 2019 report, we said that our value for money conclusion for 2018/19 would be qualified as improvements in childrens' services, following an earlier assessment by Ofsted that services were inadequate, were not in place for the whole of 2018/19.

Our work on VFM is ongoing.

Additional risk identified

In our 2019/20 audit plan, we identified an additional risk in relation to financial reporting.

The Council's statement of accounts has been significantly delayed and there has been a period of uncertainty over the true financial performance in 2018/19 and amount of resources available at 31 March 2019 while officers investigate and quantify potential or actual misstatements in the draft statement of accounts. The Council has recognised in its updated draft annual governance statement for 2018/19 that there significant deficiencies in controls over financial reporting.

Reliable and timely financial reporting that supports the delivery of strategic priorities is a key component of informed decision-making.

This risk also relates to our 2018/19 audit.

Our assessment of this risk

We concluded that this is a significant audit risk. This is due to:

1. The length of time taken to provide information and explanations to support transactions in the accounts; to investigate issues which have arisen; and prepare amended financial statements leading to an expected delay in excess of 18 months for the target date for issue of our opinion of 31 July 2019.
2. The volume, size and pervasiveness of corrections required in relation to both current and prior period information reported in the statement of accounts originally authorised for issue in May 2019, in particular correction to or prolonged uncertainty over the amount of usable reserves available to meet future spending requirements and therefore strategic objectives (or timing in recognition of these resources) (see the appendix to this document for a summary of the changes made). Of particular note are:

- In the original accounts a reversal of a creditor was recorded in the general fund and not the collection fund. The correction of the error, together with the correction of an error in the estimate for appeals to business rates, resulted in a reduction in council revenue resources of £20m
- The earlier recognition of capital resources of £30m in respect of contributions from leaseholders to major works and £20m due from developers in respect of community infrastructure levy and other government grants of £7m.
- The restatement of prior period accounts, including the restatement of PPE by £440m.
- The Council commissioned an independent report into the accounts closure process which identified weaknesses in the accounts closure process, including weaknesses in the leadership of that process
- These and other weaknesses in related accounting and business processes, including the following resulted in material misstatement of the accounts and delays in the accounts and audit process:
- Inadequate controls in areas of significant risk of material misstatement which resulted in material misstatement including controls over journals, controls over the valuation of properties and controls over the calculation of estimates
- Inadequate control reconciliation processes, in particular in relation to the reconciliation of the schools disbursement account resulting in prolonged uncertainty over the amount of schools cash balances
- Inadequate VAT accounting processes resulting in the under claim for input tax of £4m
- Inadequate training of staff resulting in incorrect application of the Council's accounting policies, in particular in relation to the recognition of income.

Conclusion

We have concluded that the factors considered as part of the risk assessment provide evidence of weaknesses in arrangements for reliable and timely financial reporting that supports the delivery of strategic priorities. Our report will be qualified in this respect.

7 Purpose of our report and responsibility statement

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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:

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an update on issues reported in our July 2019 report
other issues which have arisen since the issue of that report

- an update on areas of significant audit risk identified in our 2018/19 and 2019/20 audit plans
- an update on progress on other areas of audit work
- an explanation of work performed in response to the impact of the pandemic on matters relevant to our audit
- areas where we expect to make additional control observations.
- .

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.

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

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.

Jonathan Gooding

for and on behalf of Deloitte LLP

St Albans

26 March 2021


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AUDIT COMMITTEE 7TH APRIL 2021	 TOWER HAMLETS
Report of: Will Tuckley, Chief Executive	Classification: Unrestricted
Tower Hamlets' response to the Independent Review of Accounts and reports produced by the Chartered Institute of Public Finance and Accountancy and Grant Thornton	

Executive Summary

This report outlines Tower Hamlets' draft Improvement Plan (IP) which has been drawn up in response to the Independent Review of the 2018/19 year-end closure of accounts. The former Corporate Director of Resources commissioned an Independent Review and Worth Technical Accounting Solutions Ltd were appointed to carry out the review in August 2020 following the Audit Committee on the 13th May 2020. This was reported to the Audit Committee in November 2020 and it was agreed that the Independent Review along with an Improvement Plan (IP) to set out the actions to meet the recommendations would be brought to the April Audit Committee meeting. This report also contains the wider actions from the June 2018 Grant Thornton report on Good Governance and the report from March 2017, Review of Financial Management using the CIPFA Financial Management Model.

Recommendations:

The Audit Committee is recommended to:

1. Review the actions set out in the detailed improvement plan for Phase 1 of the IP;
2. Note the resource plan for Phase 1;
3. Note the proposed content of Phase 2; and,
4. Note the recommendations, current position and improvement plans related to the Grant Thornton and CIPFA reports.

1. BACKGROUND

- 1.1 The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial statements by the statutory deadline of 31st July each year. Since that target deadline was missed for 2018/19, the former Corporate Director of Resources commissioned an Independent Review into the reasons for that and to review why the quality of the draft accounts did not meet the required standards and to recommend actions that would ensure that the Accounts are delivered on time and of the right quality in future.

- 1.2 The former Corporate Director stated that the Review would question why processes had failed and comment upon the quality of working papers and the testing and challenge of those documents.
- 1.3 During this review a previous report from 2017 on financial management produced by CIPFA was considered, which identified several recommendations that remain outstanding that have been captured in the Finance Improvement Plan.
- 1.4 Separate to the independent review referred to above, Internal Audit followed up recommendations made by Grant Thornton in their 2018 review of Good Governance, this also identified recommendations that remain outstanding as well as some additional recommendations which were agreed with management.
- 1.5 It is important to note that the actions to meet the recommendations made by Worth Consulting would not in themselves be enough to robustly rebuild the sustainable ability of the Council to produce its accounts.
- 1.6 Firstly, there are other issues that emerged that require specific actions, such as on the Collection Fund and the way in which Tower Hamlets accounts for energy costs. In addition, there were several issues that caused significant delays in the production of the 2019/20 accounts such as payroll and bank reconciliations and suspense accounts that did not ultimately result in changes to the accounts, as they were resolved, but the impacts caused delay and diversion of management capacity. Ten lessons learned sessions have been held with finance staff, some team specific, some focussed on areas of concern such as the Collection Fund.
- 1.7 In addition, the finance department restructure of 2019 that the Review refers to, further exacerbated the difficulties that the Finance function were experiencing. The structure has confused roles and responsibilities and, in the view of finance division senior management, needs to be reviewed; additionally, the capacity of the teams needs to be reviewed.

2. DETAILS OF THE REPORT

- 2.1 The Council had already learned some lessons from the 2018/19 accounts production and implemented a number of improvements for the 2019/20 accounts which were acknowledged in the IP despite the impact of the pandemic which began in March 2020 and was at that time, the Council's highest priority. Whilst these added up to a significant step forward, it was recognised that there is nevertheless a considerable way to go to reach a sustainable level of improvement such that the accounts can be reliably produced on a regular basis that meet the required professional standards.
- 2.2 The Independent Review was reported to the January Audit Committee. The summary of the review contains 2 sets of key recommendations, one for

sustainable improvement, the other specifically relating to the 2018/19 accounts. These are set out below:

A) Recommendations for sustainable Improvement

To address these issues, the Council should:

- establish a project plan, as a priority, to address shortcomings highlighted by CIPFA in 2017;
- simplify the current coding structure so that it reflects the required layout and format of the Statement of Accounts;
- establish ongoing financial systems that support all key items and disclosures; and,
- ensure that these systems are reconciled to relevant ledger codes on a regular basis throughout the year.

B) Recommendations for the 2018/19 Statement of Accounts

The Council should now treat completing the 2018/19 audit as a corporate priority, by:

- identifying the key barriers to audit sign-off;
- implementing clear project plans to address each outstanding issue effectively;
- securing Deloitte's commitment to completing the audit by an agreed date which is both realistic and achievable; and,
- providing additional staff resources if necessary.

IP Governance

2.3 Due to the comprehensive and complex nature of the recommendations, it was decided that the IP should form part of the Corporate Leadership Team (CLT) Transformation Board suite of programmes. The IP is being governed by a Finance Improvement Board (FIB), chaired by the Interim Corporate Director of Resources, with membership as follows:

- Chair – S151 Officer, currently the Interim Corporate Director of Resources;
- Interim Divisional Director for Finance, Procurement and Audit
- The 5 Strategic Heads of Finance
- The Divisional Director for IT
- The Corporate Director of Place
- Interim support to the IP
- Along with the Head of Internal Audit and the Interim Head of the Portfolio Management Office as observers.

2.4 The Board reports monthly to the CLT Transformation Board and a progress report will be made to each Audit Committee.

Improvement Plan

- 2.5 The IP which will meet the other Independent Review recommendations is set out in Appendix A. It lists each of the recommendations set out in the Independent Review and sets out the Council's response. It is split into 4 areas, which are summarised below in 4 sections.
- 2.6 The dates for actions generally, although there are exceptions, fall into 3 categories:
- i) Actions that need to take place before the year end, 31 March 2021;
 - ii) Actions to take place before May 2021; and,
 - iii) Actions to form part of the next phase of the IP, Phase 2.

Section A – Independent Review Leadership, resourcing, planning and closedown delivery (8 recommendations)

- 2.7 The actions to meet the recommendations in this section have largely been delivered or the actions identified are ongoing throughout the accounts production process. Key actions that have been taken to meet recommendations are set out below in paras 2.8 – 2.12 as well as some key actions that are yet to be delivered.
- 2.8 The Closedown timetable was reviewed in detail in January and widely publicised within the council following a series of lessons learned sessions with the Finance Team as well as reflection on the Independent Review's findings. The interim S151 officer led the Finance Launch for the 2020/21 Accounts on the 5th February 2021 and the Launch contained a training element on the technical changes being made to the accounts for 2020/21 and the requirements for improved working papers, as well as briefing on the lessons learned from 2018/19 and 2019/20. The interim S151 is present at the weekly Finance closedown meetings, so he leads the status review of the timetable and is close to the detailed challenges being faced on the ground.
- 2.9 The Accounts process has been recognised as being corporate in nature and a Communications Plan has been drafted and will be approved at the March Finance Improvement Board. This Plan is in delivery and sets out weekly key messages and communications channels, including messages from the Chief Executive. A formal fortnightly report will be made to CLT from the start of April on the status of the closing of the accounts.
- 2.10 Training sessions were held for all service staff, as they were for the 2019/20 accounts, but the 2020/21 sessions were specific to each directorate, attended by Corporate and Divisional Directors. Heads of Strategic Finance are attending Departmental DLTs to highlight upcoming deadlines and where the timetable has slipped and agree what actions need to be taken. A Readiness Report template was prepared and discussed at DLTs so that Divisional Directors could test how prepared they are for closure and report back any high-level risks to be highlighted at the Directorate DLTs.

- 2.11 A standard objective for PDRs relating to the responsibility that service staff carry, whether a budget holder or a budget administrator has been made available, but this should be tailored to each staff member's responsibilities. This will be communicated to all staff.

Training

- 2.12 A training needs analysis will be drawn up for both Finance staff and service staff; as part of this, the learning and development section of PDRs should contain a mandatory review of Finance skills. It is proposed that these are collected and form the basis of the needs analysis. An ongoing training plan needs to be drawn up, so that there is a sustainable training content that is published on a Finance web page for refresher training and those staff members new into posts where there are financial responsibilities.

Section B – Systems and Processes (5 recommendations) IP response

Agresso

- 2.13 A range of improvements have been identified that will ensure that Agresso, the Council's core finance solution, will better serve the Council's requirements as a matter of priority. An upgrade to the current version of the software will be delivered by summer 2021 which will enable new reporting functionality to be utilised. The service benefit will be to facilitate easier uploading of monthly forecasts.
- 2.14 Capital budgets will be loaded onto Agresso for 2021/22. This will free up capacity within the Capital team during closing in future years, as the outturn comparisons to budget will be identified from system generated data and reports. This improvement will also allow corporate monthly forecasting to take place in 2021/22 (currently quarterly) reporting through to CLT and then to Cabinet on a quarterly basis in the same way as revenue.
- 2.15 In addition, changes are being made to introduce standardised, structured, hierarchy-based budget management reports to not only Budget Managers and Service Managers as currently, but also to Divisional Directors and Directors for both Revenue and Capital budgets across the Council using the existing reporting functionality.
- 2.16 There are a range of other changes that are being delivered utilising functionality in the software that simplifies the reporting and analysis of the Trial Balance to the specific years activity (referred to as rollover) and the introduction of additional accounting periods at the end of the financial year which will assist in the transparency of the final accounts process. The rollover is expected to be complete by early April.
- 2.17 In the light of the recommendations on systems from CIPFA, GT and the Independent Review, as well as reflection by Tower Hamlets' officers, it has been recognised that Tower Hamlets does need to review what corporate systems it requires, so a review of whether an Enterprise Resources Planning

system is a better solution rather than current best of breed systems is needed. If it is decided to continue to use best of breed, there will be system changes that will allow better outcomes to be obtained. Either course of action will require a very significant level of investment. The action to review the approach to recommend to Members has a deadline of October; this is to allow the new S151 officer to input to the decision making and to recognise the capacity of the Finance leadership team to manage the level of change already required in this action plan, which will stretch current capacity. A report is currently being commissioned to support that decision making process from an external organisation to deliver a recommendation in early summer. The outcomes of that report will form part of Phase 2 of the IP.

Recharges and journals

- 2.18 There are some recommendations in this section that whilst ideally would be actioned as part of this plan, will involve significant work and are judged to be outside the capacity to manage change of the Finance function at this time. The system of recharging requires in-depth remodelling from first principles; this will require a significant level of work, both to set out the “to be” and to map from the “as is” systems and data. It is proposed that this forms part of Phase 2 of the IP.
- 2.19 The Council generates over 100,000 journals year; there are significant mispostings and coding adjustments. To reduce error, the reasons behind the level of journals needs to be fully understood and then the reasons why journals need to be posted needs to be corrected at source; a journal is only required when income or expenditure has been posted to a code that is not where it should be posted to, which implies that other system changes will remove that need for reposting. Some of the work that will be undertaken over this next period will reduce the volume of journals, but there will be significant work remaining. It is proposed to also review the journals in Phase 2 of this IP.

All Agresso codes to be supported by ongoing monthly reconciliations.

- 2.20 A review of all balance sheet codes is on track to complete by the end of March 2021 and will establish an owner and identify if a regular reconciliation is required and is being carried out. Where regular reconciliations are not being carried out or the quality of those reconciliations does not meet the required standard, there is no review of the reconciliation and no process notes are in place, where these are key, these reconciliations have formed part of Phase 1 of the IP. The Council’s bank reconciliations are key and are being fully reviewed with up to date procedure notes and these key reconciliations are, with a few exceptions, up to date. The 4 accounts that are not fully reconciled are planned to be up to date and in some cases potentially closed by the start of the new financial year. A procedure note has been drafted for the clearance of suspense. These procedures notes, along with all updated processes, will be reviewed by Internal Audit before being signed off by the Finance Improvement Board.

- 2.21 Payroll reconciliations are key and these will form part of Phase 1. The reconciliations are not up to date and the procedure note has not yet been developed due to resource constraints. The payroll reconciliations are now a very high priority. A dashboard giving oversight of monthly reconciliations will be put in place and reported to the S151 officer monthly by April.

Valuations and Pensions

- 2.22 Weekly meetings are being held between Finance and officers in Place to ensure that the way in which valuations of the Council's assets have been carried out is challenged, robust and documented, with the documentation being available to the external auditor when finished. The assumptions made as part of the annual Pensions liability valuation are also being challenged and documented. The documentation for both of these areas will be reported to the FIB.

Section C – Errors identified (6 recommendations)

All income to the Council is accurately and promptly invoiced, collected and recorded.

- 2.23 There are two sources of income that have caused errors to occur in the accounts. The first is Leaseholders, where the last four years of accounting entries for leaseholder accruals and bad debt provisions have needed to be restated. Finance and Place are working with Tower Hamlets Homes (THH) to identify where improvements need to be made that will be delivered through THH, including reviews of all procedures and processes, key monthly reconciliations and an annual review of bad debt methodology. This plan is being agreed with THH.
- 2.24 CIL and S106 income are on track to have been reviewed end to end to ensure that processes are adjusted so that errors do not occur, such as missing accruals and that the system is made more efficient by the end of March. The procedure note will be reviewed by Internal Audit prior to sign off by the Improvement Board. End to end reviews of all other income sources will form part of Phase 2 and later phases of the Plan on a prioritised basis.
- 2.25 The resourcing for the management of the Collection Fund (CF) has been reviewed and additional resource has been allocated to ensure that the Finance work is carried out by one member of staff and reviewed by their manager in collaboration with the Head of Revenues & Benefits Services.
- 2.26 The working papers supporting key decisions such as the Business Rates Appeals Provisions will be reviewed by the S151 officer and his deputy. LGF, a highly respected niche organisation, have been retained on an ongoing basis to train and support the closedown process for 2020/21 and support the drafting of end to end process notes.

Schools accounting

- 2.27 The Review recommends that all schools bank accounts are monitored monthly and that postings are made throughout the year to reflect the schools' financial position. During 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. The current process is complex, counter intuitive and not documented, with no staff remaining from the year which it transpired generated most of the errors. To further complicate matters, the schools were treated as a single entity for these accounting purposes, so there was not an individual set of schools' entries to match to schools returns.
- 2.28 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.
- 2.29 A separate schools improvement plan has been drawn up following a lessons learnt session with the Finance team. The current process is now fully understood, but even though it needs to be changed, a new process could not be drawn up and fully implemented in time for the 2020/21 Accounts. The interim S151 officer has agreed to additional resources being made available for the period of closedown to mitigate key person risk and workshops have been held with schools. These actions as well as ongoing engagement and communication, should together ensure that schools returns will be made on time, which is a key risk and that the returns are of a higher quality, as through the latter stages of the audit, it emerged that there were areas of improvement required within the schools as well as the way in which the Finance Division have been accounting for them. An end to end process review of that accounting process has taken place, including using the Accounts Payable system for disbursement to schools, not CHAPs as is currently the payment method, which generates unnecessary work, including a significant volume of journals. Payment to schools will be made using BACs from April 2021, which will simplify the coding, reduce journals and errors. This new process will be reviewed by Internal Audit and will be signed off at the April Finance Improvement Board. The schools will also be reflected individually on the ledger, not as one sum as they are now. The schools accounts will be checked on a quarterly basis, not a monthly one as recommended by the Independent Review, as this is a step change which needs to be embedded before consideration is given to a monthly process in October 2021.
- 2.30 Lastly, cash advances were made to schools without proper authority. A small number of historic advances will be formally agreed with schools with repayment plans. The process for licensed deficits will be documented and

any schools going into deficit in future will have an approval from the Chief Finance Officer and the Corporate Director of Children and Culture.

Grants register

- 2.31 The review recommends that Tower Hamlets establish a grants register, which is standard practice to cover both revenue and capital and this will have many benefits, including one version of the truth for what level of grant has been received and what has been indicated, de-risking budget setting and monitoring as well as ensuring that the Council sets out its Grants disclosure note accurately. The register has been set up and has been reviewed by Finance’s DLT; it will be signed off by the FIB at its April meeting. The register will be reported quarterly to Finance DLT and now forms part of an individual staff member’s role and responsibilities.

Accruals Team

- 2.32 The Review recommends that a specific team is set up to review accruals. The interim Corporate Director of Resources has agreed to set up a time limited team staffed by interims - part of the team’s role will be to review accruals, but the team will also add capacity over this period of transition, provide a resource to prepare for the Accounts (preparing working papers supporting reconciliation reviews, following up on the areas of restatement from previous years), document the payroll reconciliations, provide additional capacity, trouble shoot and manage the External Audit queries. (see paragraph 2.36 for cost implications).

Section D - External Audit (5 recommendations)

- 2.33 These recommendations are being put into place and do not require additional resource but are now being absorbed as business as usual. The restated accounts for 2018/19 and 2019/20 are elsewhere on this agenda, along with an external auditor update.

Programme Approach.

- 2.34 In order to manage such a wide ranging programme 7 workstreams have been established, as set out in the table below. The IP has a column showing which of the 8 workstreams each action belongs to.

Table 1 – Finance Improvement Plan

Programme workstream	Content
Leadership, culture and planning	This relates to the way in which the accounts process is managed and moves this to a fully corporate approach.
Agresso	This workstream contains a number of improvements including the roll over and moving capital budgets onto Agresso (see paragraphs 2.13 – 2.16)

Errors	This contains improvements to the 5 major areas of error which are: Schools Accounting (see paragraphs 2.27- 2.30) Valuations (see paragraph 2.22) Leaseholders (see paragraph 2.23) Community Infrastructure Levy (see paragraph 2.24) Collection Fund (see paragraphs 2.25 – 2.26)
Bottlenecks	This covers process improvements to 7 work areas that did not lead to major errors but delayed the production of the accounts. <ol style="list-style-type: none"> 1) Procedures notes for the following areas are being produced and then will be reviewed by Internal Audit before sign off by FIB, with recommendations for future improvements: Council's bank accounts Suspense (clearing unallocated income), Payroll reconciliations Housing Rents reconciliations S106 accounting 2) The way in which the Council monitors its capital expenditure is being reviewed and a procedure note will be reviewed by the Capital Delivery Board and the FIB, along with improvement to the way in which salaries are capitalised. 3) The “holding account” reconciliation for utilities expenditure will be up to date and recommendation made to eliminate it as part of Phase 2.
Budget Management	This workstream has been added and has dependencies in Agresso. Two significant new items are the commissioning of an external organisation to review the council's systems; to recommend either an ERP or to continue/enhance our best of breed systems; and to put in place the resource for the realignment of budgets to reflect expenditure on a line by line basis for all budgets that will take place in Phase 2.
Miscellaneous	This workstream relates to a small number of recommendations including identifying an owner for each balance sheet code and ensuring oversight that all required reconciliations are being done via a dashboard over the phases of the IP.
Pensions	The Pensions Remedial Plan has been reported to the Pensions Committee. (2 workstreams)

Phase 2

2.35 A number of references have been made to Phase 2 of the Improvement Plan. Phase 2 will be agreed by CLT and reported to the next Audit Committee. The draft workstreams for Phase 2 are as follows:

- A Budget Management
- In depth realignment of budgets (income and expenditure) to enable more robust monitoring
 - Review of corporate systems, which will allow more robust management information to be available to budget holders through data cleansing and automation, the use of Business Intelligence (BI), as well as other corporate benefits
 - Review of the way in which Tower Hamlets accounts for recharges to simplify and automate
 - A Council Wide Learning and Development Training offer for Budget Holders
 - A new intranet page designed as a 'one stop shop' for Budget Holder information and guidance.
- B Pensions Administration
- C Corporate and wider Finance Workstream
- Finance Asset Register
 - Review of journals
 - Review of schools accounting
 - Review of control accounts
 - VAT review

Resource Implications

- 2.36 The actions set out in the action plan that are in Phase 1 requires 3 additional sets of resources. The first set to lead and manage the IP and carry out work for both Capital and Revenue workstreams. This comprises 4 interims until the completion of Phase 1 of the IP in May 2021. The second set of resources comprises an interim accountant for each of the 4 service teams. The resource will allow each team to focus on improvements within the teams, as well as add capacity during the time when improvements are taking place but have not been implemented. It is anticipated that these resources will remain in place for Phase 2 and the budget realignment work. Lastly, Section 2.32 outlines the short-term support required for to ensure that the Accounts for 2020/21 are closed on time and to a higher, and appropriate, quality. The estimated cost for the year 2021/22 is £1m and is being financed from the Council's Transformation Reserve. The resource plan will need to be reviewed once Phase 2 is agreed.
- 2.37 The costs referred to above are one off, but the S151 officer will have to consider ongoing resourcing following the completion of the 2020/21 accounts. The cost of the specific Agresso enhancements is expected to be minimal but yet to be confirmed.
- 2.38 The cost of the upgrade has been included in the Capital programme; this is being further reviewed and the split between capital and revenue analysed, however the costs of outcome of the review which will recommend either an

ERP, or Best of Breed systems, has not been included, which will be very significant for either option.

Risks

- 2.39 A Risk Register has been drawn up and is planned to be reviewed at the FIB.

Conclusions

- 2.40** The IP represents a major step towards the objective of the Accounts being sustainably produced with the required quality and on time. The Plan will need to be reviewed again once the 2020/21 Accounts have been published to take account of any further improvements that have been identified during the 2020/21 process and when the external auditor has made their final assessment of the Council's accounts (ISA 260 report) after they have concluded their audit of the 2 outstanding years accounts, which is planned for July 2021.
- 2.41 The IP has a second phase that will need to be prioritised and resourced and the other CIPFA 2017 recommendations will need to be addressed if the Financial Management of the Council is to meet contemporary quality standards over time, which would require further action to be taken not set out in this report.

Grant Thornton Report: Good Governance

- 2.42 During Internal Audit's review of the Council's corporate governance, they followed up on a previous review of governance undertaken by Grant Thornton in 2018. This established that some of the recommendations made by Grant Thornton had not been fully implemented. To understand the current position in relation to these recommendations management have reviewed the Grant Thornton report and articulated the current position. From this work it is clear that some of the recommendations made by Grant Thornton are no longer relevant or appropriate as the Council has changed and improved in the last three years, however some of the recommendations remain relevant and further work is required to implement and embed better governance. A prioritised improvement plan has been prepared to address these issues as well as the latest recommendations made by Internal Audit and is attached at Appendix B for the Committee's information. This plan has been reviewed and approved by CLT who will own the plan and actively monitor progress. The Grant Thornton report on Good Governance 2018 is attached at Appendix C and the 2017 CIPFA review referred to by Grant Thornton is attached at Appendix D.

3. EQUALITIES IMPLICATIONS

- 3.1 The Equality Act 2010 requires the Council in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and

victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

- 3.2 There are no equalities implications arising from this report.

4. OTHER STATUTORY IMPLICATIONS

- 4.1 Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom. There are no other statutory implications within this report.

5 COMMENTS OF THE CHIEF FINANCE OFFICER

- 5.1 The comments of the Chief Finance Officer have been incorporated throughout this report.

6 COMMENTS OF LEGAL SERVICES

- 6.1 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit Regulations 2015. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account.
- 6.2 The Accounts and Audit Regulations 2015 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 31 May each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The Audit Committee must approve the statement of accounts by 31 July each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 31 July along with any certificate, opinion or report issued or given by the Local Auditor under the Local Audit and Accountability Act 2014.
- 6.3 The Regulations state that where the auditor's final findings are not available by the required date, the local authority must publish as soon as reasonably practicable on or after the required date a notice stating that it has not been able to publish the statement of accounts and its reasons, and must publish the statement of accounts and other documents as soon as reasonably practicable.
- 6.4 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is referred to as the Council's best value

duty.

- 6.5 The improvement plans appended to this report have been put in place to ensure compliance with these legislative requirements.
-

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- A Finance Improvement Plan
- B Governance Plan
- C Grant Thornton Report on Good Governance
- D Review of Financial Management using the CIPFA Financial Management Model.

Independent Review Recommendations - Improvement Plan

	Independent Review Recommendations with TH additions in italics	Actions and comments		IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
A	Leadership, resourcing, planning and closedown delivery						
A1	Regular and visible input from the Council's s151 officer is necessary to reinforce the fact that closedown is a corporate priority, enable key judgements to be documented and ensure any problems or slippage are promptly identified and resolved.	Weekly Accounts meetings to be led by S151 to show a visible presence, allow speedier decision making, oversee documentation and support informed feedback to CLT.	A1 i	LCP	Complete	14/12/2020	
		S151 to hold an Accounts launch session in week beg 1st Feb; this will launch the I.P., feedback on lessons learned and focus on the timetable for 20/21, as well as update on technical changes.	A1 ii	LCP	05/02/2021	04/02/2021	
		Fortnightly e mail from the S151 to all key staff, including 3rd parties such as THH and identified departmental staff at all levels to brief on progress, celebrate success and identify where more actions are required to remedy delays or address problems.	A1 iii	LCP	12/02/2021	12/02/2021 for Finance staff	
A2	Culturally the Council should recognise that year-end close and audit is a corporate priority, and all Corporate Directors should support the Corporate Finance team by: <ul style="list-style-type: none"> making staff time available as necessary to assist with closedown work ensuring that in-year financial information is accurate and up to date adhering to corporate timetables and guidance on year-end close, especially in key areas such as accruals, cut-off, reconciliation work and the use of reserves responding promptly to audit queries and internal requests for further information 	Finance to take regular reports to CLT, starting with the Accounts timetable and fortnightly from week ending Feb 26th so that the CEO and CLT are aware of progress and specifically, what is needed to ensure that the timetable is on track.	A2 i	LCP	Timetable 26/01/2021 and fortnightly from 26/02/21	Timetable sent 26/01/21, 1st formal CLT report will be in April	Amber due to timing
		Heads of Strategic Finance (HoSFs) to attend DLTs with a regular report to highlight progress and what is needed and from whom both in terms of their own data and specific actions required for the Accounts such as valuations. This will include specific Departmental responsibilities such as Valuations. DLTs to include Accounts related content in newsletters and staff cascades.	A2 ii	LCP	26/02/2021	Ongoing	

	Independent Review Recommendations with TH additions in italics	Actions and comments		IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
		Readiness report for each Division to be prepared including a review of what is required for the Accounts and remedial action identified for financial information being accurate and up to date; this to be discussed at DD DLTS reported to Directorates DLTS. Generic template to be provided by Finance.	A2 iii	LCP	12/02/2021	12/02/2021	
		PDRs to contain an objective on finance to cover budget development, monitoring and the accounts for all relevant staff.	A2 iv	LCP			
		A Council wide coms plan to be developed in conjunction with Coms so that awareness is heightened and colleagues across the Council understand progress.	A2 v	LCP	29/01/2021	05/03/2021	
A3	All Finance staff should expect to be involved in year-end work and should be provided with adequate and up-to-date training in this regard. Local authorities who do this most successfully have a programme of short, but regular, training events throughout the year.	An series of mandatory briefings and training sessions to be drawn up and diarised in all Finance Calendars. All staff to attend, including S151, except for those detailed briefing sessions centering on one specific subject such as schools accounting.	A3 i	LCP	Between 01/02/2021 - 28/02/2021	Completed 12th March	
		A wider training needs analysis will be carried out for Finance staff as well as budget holders and administrators to identify gaps and develop a suite of training sessions and on line content	A3 ii	LCP	31/05/2021		
		A wider training plan to be developed including one off and ongoing training for BH, along with a BH webpage with training content and link to relevant documentation such as the BH Handbook. The training should be mandatory.	A3 iii	LCP	Phase 2		
A4	Closedown planning should clarify accountability for all tasks identified and ensure that detailed working papers are prepared to support all core statement and disclosure notes.	Review allocation of tasks as part of the timetable review.	A4 i	LCP	29/01/2021	26/01/2021	
		Templates for detailed working papers to be drawn up eg for accruals	A4 ii	LCP	05/02/2021	08/02/2021	
		PDRs to be clear about individual training needs so staff have the opportunities to be upskilled where individual needs are identified.	A4 iii	LCP	PDR Deadline		

	Independent Review Recommendations with TH additions in italics	Actions and comments		IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
A5a	Closedown work should be scheduled to avoid bottlenecks and to ensure that all disclosure notes are completed and reviewed before core statements are prepared.	Lessons learned sessions to be held with all staff including an assessment of where bottlenecks occurred and why this was the case. The key bottlenecks experienced for 2019/20 accounts such as schools, the Collection Fund, Leaseholders, payroll reconciliations, bank accounts, energy holding account, suspense and other key reconciliations such as Housing Rents all to have specific plans to avoid a reoccurrence.	A5a i	Bottle-necks	15/01/2021	15/01/2021	
		A review of strategic priorities and resourcing for Finance to be held to allow more focus on the Accounts.	A5a ii	LCP	29/01/2021	March 2021	First 2 weeks "out of office for Finance staff to focus on the accounts
		Closing timetable and plan being reviewed for early cut off opportunities where they will add value, where more estimates can be used.	A5a iii	LCP	29/01/2021	16/01/2021	
		A review of who uploads accrual bulk journals and manual journals (service finance team or business support team) to be carried out to avoid bottlenecks	A5a iv	LCP	29/01/2021	29/01/2021	
		The Council's current Asset Register is on a spreadsheet. This needs to be put on a system for control purposes and avoid bottlenecks.	A5a v	LCP	Phase 2		
A5b	The closedown plan includes columns for actual completion dates and a "traffic light" risk assessment system, which should be used to monitor progress and highlight delays.	The closedown plan for 19/20 had these columns built in.	A5b	LCP	Complete	Feb 2020	
A6	The Council should aim to complete as much closedown work as possible prior to 1 April each year, using budget and Quarter 3 information where possible to draft disclosure notes.	The Timetable will be reviewed to ensure that as many tasks as possible will be completed prior to 31/03/21, including seeking further opportunities to use estimates.	A6	LCP	Ongoing to 31/03/21		Payroll and suspense not fully reconciled and cleared.
A7	The Prepared By Client (information requirements) is one of the key drivers for the audit and the contents of this list should be discussed and agreed well in advance with a view to ensuring that all working papers requested are available at the start of the audit. Checklists, templates and proformas should also be introduced to ensure that working papers are prepared to a consistent standard which meets external audit needs.	Earliest sight of PBC requested to discuss with Deloitte and a workshop to be set up to review requirements with them.	A7 i	LCP	05/02/2021	28/01/2021	
		Detailed briefing sessions on the PBC to be set up with all responsible officers (as in 19/20)	A7 ii	LCP	26/02/2021	Through the training sessions	

	Independent Review Recommendations with TH additions in italics	Actions and comments		IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
		Checklists, templates and proformas to be reviewed as part of the Accounts suite of documentation.	A7 iii	LCP	05/02/2021	02/08/2021	
A8	Closedown work should include detailed checks on the draft financial statements, and a full review of year-end working papers, at the pre-audit stage.	To be included as part of the Accounts Timetable (this was in place for 19/20)	A8	LCP	29/01/2021	16/01/2021	

	Independent Review Recommendations with TH additions in italics	Actions and comments		IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
B	Systems and processes						
B1a	The Council should, as a priority, address the shortcomings in the current ledger system highlighted by CIPFA in 2017. A project plan should be established to deliver the required improvements within achievable timescales, and subject to regular monitoring by the Audit Committee.	A Development Plan is being devised in conjunction with IT that has identified development priorities that will take place before and after a planned upgrade to Agresso before June 21. Benefits include Capital budgets loaded to Agresso, an improved chart of accounts with standardised reporting and a training strategy. The draft plan which has not yet been costed and agreed by CLT but an early draft can be seen in Appendix E. The Plan will be governed through the Agresso Board and reported through to the FI Board.	B1a i	Agresso	Costed plan completed and to be agreed by CLT 26/01/2021	26/01/2021	
		Planned improvements delivered	B1b ii	Agresso	31/05/2021		Date of the upgrade to be confirmed
		A strategic review of corporate systems to be carried out to decide what financial system should be used. An external analysis of opportunities will be commissioned externally as part of the Review	B1b iii	BM	Phase 2		
B1b	The Council should simplify the current coding structure so that it reflects, with minimal re-analysis, the required layout and format of the Statement of Accounts.	This was completed for the 19/20 set of accounts and is in place.	B1b	N/A	Complete		
B1c	Arrangements should also be put in place to manage the appropriate roll-forward, reversal or re-start of specified ledger codes each year end.	This forms part of the Agresso Development Plan	B1c	Agresso	21/02/2021		Estimated delivery early April, but proceeding successfully
B1d	The Council should also simplify the presentation of the CIES and underlying processes for the accounting and management of overheads, governance and corporate service costs.	An initial review of Corporate recharges was completed and budgets centralised. A review of accounting for and the management of overheads, governance and corporate service costs to be commissioned, with the objective of making these fit for purpose whilst being as simple to execute as possible. The Accounts impact will be year 21/22.	B1d	Phase 2	Phase 2		
B1e	Action should be taken to minimise journal mispostings and coding adjustments, through a combination of staff training and by restricting who can initiate and authorise such transactions.	A review of the 100,000 plus journals a year will be commissioned to reduce the volumes and secondly, make recommendations on staff that can post journals; currently, departmental staff can post journals as well as Finance staff.	B1e	Phase 2	Phase 2		

	Independent Review Recommendations with TH additions in italics	Actions and comments		IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
B2a	The Council should confirm that all Agresso ledger codes and disclosure notes are supported by ongoing financial systems and/or year-end work. Arrangements should be put in place to carry out and evidence regular reconciliation work which confirms the accuracy of these balances on a monthly basis rather than relying on year-end work.	A review of all ledger codes and disclosure notes to take place to establish that each balance/disclosure note has an owner and that a reconciliation is taking place. Where they are key, those to form part of the Technical Plan - Phase 1, so arrangements for those will be put in place to ensure that regular reconciliations processes are documented, carried out and reviewed	B2a i	Misc	31/03/2021		
		All other codes and disclosure notes; arrangements for those will be put in place to ensure that regular reconciliations processes are documented, carried out and reviewed	B2a ii	Misc	Phase 2		
		The accounting processes for the Collection Fund will be reviewed and documented by an external resource, LGF and training delivered for relevant staff.	B2a iii	Errors	31/03/2021		Additional resource now in place
B2b	Good practice is to operate a "dashboard" approach with regular (i.e. monthly) reports to the s.151 officer to provide assurance to him/her that all reconciliations are occurring on time and to identify where they are not so that corrective action can be undertaken in a timely manner.	Once all reconciliations have been identified, a monthly dashboard will produced. This forms part of the Technical Plan.	B2b	Misc	31/03/2021		
B3a	Given the significance of asset valuations to the audit process, tenders and contracts for external valuers should emphasise that all work is carried out to a standard that meets Code and RICS Red Book requirements in full. Contracts should only be awarded to valuers who can demonstrate a proven track record in meeting external audit requirements.	TH already mandates that all companies used have surveyors that are RICS registered valuers as a condition of the contract, as per RICS requirements https://www.rics.org/uk/upholding-professional-standards/regulation/valuer-registration/ Tower Hamlets' current valuer is RICS registered https://www.wilks-head.co.uk/the-firm/meet-the-team/guy-harbord/	B3a	Errors	26/01/2021		
B3b	Valuation processes, including all key estimates and assumptions, should be fully documented with officers undertaking, and evidencing, adequate review and challenge of all valuation reports received	The track record of surveyors is a key factor in contract award; our current contractor is one of the most widely used companies in this field and provides a similar service to over 100 local authorities. NB The Council is in the final year of this contract (The Contract is for 5 years from 1st September 2017 and expires on 31st August 2022, although it can be extended for one or more further periods). A meeting has been diarised for early 2022 to commission a new tender process ensuring that the surveyors have RICS Registered Valuers.	B3b	Errors	28/02/2021		On reflection, the date should have been the end of March to end of March as we will need to adjust for late changes in classifications - this is why it's not green.

	Independent Review Recommendations with TH additions in italics	Actions and comments	IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
B4a	The Council should liaise with its actuaries each year end to ensure that officers understand and agree with all key assumptions underpinning IAS 19 valuations and reports, and that evidence can be provided, if necessary, to support the judgements, estimates and assumptions arrived at.	This has been included in the Closedown timetable	Misc	Ongoing to 31/03/21		Amber as a new report for THH required, the data for which is still being gathered.
B4b	Actuaries' reports and correspondence should confirm how they have taken account of recent legal cases and other current developments when assessing year end pension liabilities.	This has been included in the Closedown timetable	Misc	Ongoing to 31/03/21		
B4c	Working papers provided for audit should demonstrate how the accounting implications of any prepayments or deficit funding arrangements have been considered and applied	The working papers to be reviewed and the accounting implications clearly set out	Misc	Ongoing to 31/03/21		
B5a	Discussions should be held with the external audit team early in the New Year to identify and agree the basis for: <ul style="list-style-type: none"> exercising and disclosing key management judgements and material estimation techniques implementing new Code requirements and other significant changes to the Statement of Accounts dealing with any other complex or contentious accounting issues. 	A meeting to be set up for this purpose with all key parties.	LCP	05/02/2021	28/02/2021	
B5b	Particular attention should be given to the implementation of IFRS 16 for 2020/21, and project plans for successful implementation put in place as soon as possible. Arrangements should then be made to obtain any additional information from external experts, (e.g. valuation reports, legal advice or formal accounting views) and for officers to prepare briefing papers or Council reports on material items as required.	This implementation has now been deferred nationally to 21/22 - the work on this will be carried out during calendar year 2021.	Phase 2	31/11/2021		
B5c	The template Statement of Accounts should be re-drafted to include updated disclosure notes and revised accounting policies by 31 January, then be presented to auditors and Those Charged with Governance in advance of 31 March each year.	The template will be drafted for CLT review, Deloitte and the Audit Committee.	LCP	CLT 26/01/2021, Deloitte 05/02/2021 and Audit Committee 07/04/2021		This was a timing issue, will be blue at the Audit Committee
C	Errors identified to date					
C1a	The Council should: <ul style="list-style-type: none"> update its approach to revenue recognition in the light of IFRS 15 	The approach has been updated and a working paper shared with Deloitte	N/A	31/12/2020	31/12/2020	
C1b	<ul style="list-style-type: none"> improve processes for controlling year end cut-off 	To be reviewed as part of the closedown timetable.	LCP	16/01/2021	16/01/2021	

	Independent Review Recommendations with TH additions in italics	Actions and comments		IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
C1c	<ul style="list-style-type: none"> ensure that items are not carried forward on the Balance Sheet without a detailed review to confirm accuracy and completeness of audit trail 	Documented line by line review of the Balance Sheet to take place and any uncertainties addressed with an action Plan.		Misc	ongoing to 31/03/2021		
C1d	<ul style="list-style-type: none"> ensure that land and buildings valuations meet Code and RICS requirements improve liaison with spending departments to ensure that the Fixed Asset Register is accurate and up to date. 	All land and buildings are valued using Code and RICS requirements. A monthly Assets Group meeting was established in the Autumn of 2020 to jointly review the list of potential surplus assets and assets that are being disposed by a range of stakeholders from Finance and Place. A list of all the assets that will come into operational use and the anticipated year that they will become operational will be drawn up using the Capital Programme and reviewed in detail quarterly by the Assets Group and then reported to the Capital Delivery Board which governs the Capital programme, to further ensure that the fixed asset register can be kept up to date.		Errors	ongoing to 31/03/2021		New ways of working are in place, amber as the deadline may be missed by a week
C2	Feeder systems and regular reconciliation processes should be established to ensure that all income due to the Council is accurately and promptly invoiced, collected and recorded.	All income sources need to be documented and reconciliation processes reviewed and documented. Particular focus for March is on CIL, S106 and Leaseholders. There has been a lessons learned session held on leaseholders which has its own action plan and the CIL /S106 accounting process is being reviewed end to end.	C2a	Errors & Bottlenecks	31/03/2021		Amber purely as still to formally agree Leaseholders Plan, but the plan has been drafted and a considerable amount of work has been completed. CIL/S106 on track
		All other income sources to be documented and reconciliation processes reviewed and documented on a prioritised basis.	C2b	Phase 2	Phase 2		
C3	A consistent approach to accounting for DSG funding deficits should be decided upon, taking account of current DfE and CIPFA guidance, and disclosed as a key management judgement in the Statement of Accounts.	This will be reviewed and the DSG funding deficits accounting treatment disclosed in the Statement of Accounts		LCP	12/02/2021	Feb-21	

	Independent Review Recommendations with TH additions in italics	Actions and comments	IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
C4	The Council should aim to set up a monthly monitoring process whereby all schools provide copies of bank reconciliations and budget monitoring statements within 10 days of each month-end, and this information is used to confirm each schools' cash balances, reserves balances and spend to date against DSG allocation. Journal postings can then be made on a regular basis throughout the year to eliminate internal transactions and recharges and post accurate figures for schools' cash balances and reserves to the Balance Sheet.	The decision for the need to move to monthly monitoring for schools will be taken at the end of October 2021. A more robust quarterly monitoring process has been implemented as well as further improvements planned in for 2020/21. These include ensuring that DSG budget allocations are made through a monthly BACs payment set up at the beginning of the school year, internal payroll is posted directly, rather than as a year end process which can then be checked and monitored regularly. There is also a consideration to make service level agreement charges an annual in advance invoiced amount and for other school income payments to be made on a quarterly rather than monthly basis.	Phase 2	Phase 2		
C5	Grant income is one of the most significant items in the Statement of Accounts therefore a comprehensive grant claims register should be put in place as soon as possible, and reconciled to ledger records on a monthly basis to better inform budget management and year-end financial reporting	A comprehensive grants register for both capital and revenue to be put in place	Misc	31/03/2021		
C6a	More detailed guidance and training on year-end cut off should be provided to spending departments. In order to minimize the number of year-end postings the Council should implement a de-minimis policy for accruals, say £20-25,000, and suspend payroll and creditor payment runs for 7-10 days over the year end date	More detailed guidance will be sent out to Directorates as per the Closedown plan and it will include the policy on accruals, which is a revenue de minimus of £10,000, unless grants related and a de minimus for capital of £50,000. The closedown timetable does not contain a suspension of payroll and creditor payments. Decision has been made that there is no cut off for 2020/21 closure as there were issues with the use of estimates in 19/20.	LCP	12/02/2021	26/01/2021	
C6b	An "accruals team" should be established to check all accruals over an agreed threshold (say £250,000) and 10% - 15% of accruals below this threshold on a sample basis to confirm the accuracy of the entries in the Statement of Accounts. Alternatively, additional testing of year-end accruals could be provided by Internal Audit.	A review of the resources has taken place, bearing in mind that the Chief Accountant and his team are now permanently staffed. It is proposed that 3 short term interims are secured with a start date of February. Part of the role will be to review all accruals; the team will also provide additional capacity, troubleshoot and support the audit process. Once the 20/21 Accounts have been audited, a review will take place to see what if any short term resource needs to be secured annually.	LCP	12/02/2021		Additional resource partly retained. Approval to get further resource in place and now being recruited. Amber because we may not be able to recruit.

	Independent Review Recommendations with TH additions in italics	Actions and comments		IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
D	External Audit						
D1	Detailed meetings between the Council and their auditors at the planning stage should have covered not just the logistical arrangements for the audit but also current Code and FRC requirements, the overall approach to the audit and working paper requirements.	A separate meeting will be set up for this purpose with Deloitte.		LCP	12/02/2021	28/02/2021	
D2a	Processes recently put in place to manage the audit process and to treat completion of the 2018/19 audit as a corporate priority need to be maintained and developed.	The daily updates on timetables and outstanding queries will be continued, as will the weekly minuted meetings with Deloitte. The corporate nature of the Accounts will be further emphasised by the actions identified elsewhere in the I.P.		LCP	Completed	Pre Review	
D2b	Discussions with Deloitte should clarify how best to prioritise outstanding queries and complete the audit of the revised 2018/19 Statement of Accounts by an agreed date which is both realistic and achievable.	Joint Deloitte / CEO meeting took place in January and a joint plan has been agreed.		LCP	Completed	11/01/2021	
D2c	The s151 officer should reinforce this process by regularly attending progress meetings with the external audit team, providing visible encouragement and leadership and closely monitoring progress against plan.	The S151 will meet Deloitte monthly and in between as required. TH CEO has requested to meet with Deloitte formally on a quarterly basis.		LCP	29/01/2021	29/12/2020	
D2d	Reports to Those Charged with Governance should be more detailed and cover audit processes as well as proposed changes to the Statement of Accounts.	More detailed reports will be made to the Audit Committee at each cycle.		LCP	28/01/21 and ongoing		
E	Other workstreams						
	Pensions						
E1	<i>Implement proposed staffing structure</i>	<i>Fill vacant positions.</i>		PA	31/07/2021		
E2	<i>Ensure 90% of member records are accurate</i>	<i>Improvement in tPR score and Aquila Heywood Annual Data Quality Report in line with guidance notes set out by tPR Audit results - separate detailed action plan.</i>		PA	31/06/2022		
E3	<i>To ensure 98% of member records are accurate</i>	<i>Improvement in tPR score and Aquila Heywood Annual Data Quality Report in line with guidance notes set out by tPR Audit results - separate detailed action plan.</i>		PA	31/06/2023		
E4	<i>Complete all existing backlog tasks</i>	<i>Performance reports - separate detailed action plan</i>		PA/PF	31/12/2020		
E5a	<i>Developing technology to improve data quality</i>	<i>100% of employers submitting data via i-Connect and taking full ownership of process - separate detailed action plan</i>		PA	31/03/2021		
E5b	<i>Developing technology to streamline process & reduce errors</i>	<i>Implement workflow - separate action plan.</i>		PA	Phase 1 : December 2020		
		<i>Implement system generated letters and improvements to Agresso</i>		PF	Phase 2: 31/06/2021		

Independent Review Recommendations with TH additions in italics	Actions and comments		IP Programme	Target Date - RAG (blue complete)	Completion Date	Comments
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Key for IP Programme

BM - Budget Management

LCP - Leadership, Culture and Planning

PA - Pensions Administration

PF - Pensions Finance

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Governance Improvement Pan

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
Page 93	GT8. Annual update and review of policies that underpin ethical standards.	Director of Legal Services Director of HR & Workforce Development Head of Internal Audit	October 2021	The key policies that underpin ethical standards will be briefly reviewed and updated if necessary. This will include the employee code of conduct, member code of conduct, gifts and hospitality, disciplinary policy, whistleblowing, anti-fraud and corruption, anti-bribery, anti-money laundering etc. Governance: whistleblowing, member code of conduct Risk and Audit: anti-fraud and corruption, anti-bribery, anti-money laundering. HR: employee code of conduct, gifts and hospitality, disciplinary policy.	H
IA15	The Grant Thornton report on Good Governance in June 2018 reported that the DOI completion rate was 99.75%. However, our analysis of current completion rate provided by Business Support for 2019/20 up to 10/01/20, shows a completion rate of only 21%. This is a significant decline. Whereas previously, HR sent annual reminders to all staff , this has not been the case for 2019/20. The Grant Thornton report identified that system used to record DOI information did not enable a summary report to be available to managers, which limited managers' ability to proactively manage any non-completion or any conflicts and secondary employment already declared. This issue remains outstanding.	Director of HR & Workforce Development	June 2021 onwards	The conclusions made do not account for DOI's being completed upon commencement of employment, and therefore in place for staff, the challenge is the updates and positive updates where situation changes. This area has improved and is now moving into being embedded as every staff members responsibility. A positive declaration of the update is to be made in the My Annual Review process (MAR) by the staff member. This enables an annual check and prevents this becoming an administration burden	H

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
				When a DOI is completed the manager receives a notification to then approve the DOI. The reporting mechanism in HR Self service is to be switched on. Staff have been reminded to declare their interests.	
IA16	The Hospitality Procedure was last reviewed in 2011 and a recommendation made by Internal Audit in November 2016 to update the policy, still remains outstanding. Testing of Directorate based gifts and hospitality registers showed that for 2019/20 there were 26 registered instances across all directorates. This compares with 51 in November 2016 internal audit - showing a reduction in the number of instances declared and recorded. In addition, there were 34 instances for the Chief Executive. We noted that the number of instances which were reviewed and approved was significantly lower than the 2016. Notable items included tickets to sporting events and theatre. The officer's Code of Conduct specifies that invitations to prestigious sporting events, theatre tickets or personal invitations where the officer is not attending in an official capacity are not appropriate to accept.	Director of HR & Workforce Development	December 2021	The gifts and hospital policy/procedure will be reviewed and updated. Options to enhance monitoring and reporting of gifts and hospitality will be explored and implemented if appropriate.	H
GT39 GT40 IA10	Improve compliance with Risk Management system. Ensure 'risk talks' are mandatory for officers working in and/or responsible for areas of high risk. An internal audit of Risk Management finalised in March 2020 assigned Limited assurance. The audit identified that whilst the RM framework, strategy and procedures were well documented, Directorate and service level compliance with the RM procedures was	Head of Internal Audit	October 2021	The five-year Risk Management Strategy was reviewed in March 2020 and later agreed by CLT and the Audit Committee. The Corporate Risk Register is up to date and regularly reviewed by CLT and the Audit Committee. Directorates meetings include a quarterly risk item to discuss their risk registers and new risks. Risk is discussed at the Health and Safety and Civil Contingencies Board. Risk training has been provided to Business Support Officers and Risk	H

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
	<p>variable. There was no systematic process to identify new risks and to carry out regular review of risks at DLT meetings. Risk Champions meetings were not attended by nominated Directorate Risk Champions and discussions were not recorded sufficiently. Testing of a sample of risk registers showed a number of inconsistencies which made the risk registers less reliable for decision making. In terms of the Corporate Risk Register, there was insufficient management review and challenge by the CLT and discussions were not documented in sufficient detail within minutes of the CLT meetings and Audit Committee meetings.</p>			<p>Champions. The Audit Committee receive regular updates on Risk Management including the opportunity to review the corporate risk register and Directorate risk registers. The Risk Champions group has been reconstituted and is well attended. Risk information to support risk owners will be updated on 'The Bridge'.</p> <p>E-learning will be developed and made available to all staff.</p> <p>Desktop guides for risk management will be produced and circulated to all risk managers.</p> <p>Directorates will continue to regularly focus on risk and ensure their risks are reviewed and kept up to date.</p>	
GT43	<p>A cohesive financial performance and competency framework should be established to address variable financial management and system skills of managers. Managers require training in their role in financial accountability as it is not well understood.</p>	<p>Programme Director - Finance Improvement Team</p>	<p>March 2022</p>	<p>A budget handbook has been published and some training provided so that managers understand their role. Budget challenge sessions have been implemented for high-risk budgets.</p> <p>A competency framework will be established as part of a future phase of the Finance Improvement Plan and actions agreed to ensure that learning and development plans reflect the skills gaps and identifies ongoing training requirements.</p>	<p>H</p>

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
IA26	<p>The Grant Thornton report of June 2018 stated that compliance with Internal Audit recommendations was an issue that needed to be addressed with improved tracking and accountability. From our experience of how Directorate officers deal with Internal Audit's requests for information and how well they respond and address audit recommendations, we have not found much improvement. For example, Internal audit's requests for information are sometimes not taken seriously and requests go unanswered. Internal Audit reports are not responded to on a timely basis which then loses the impact of the auditing process. Where audit recommendations are agreed, they are not tracked and monitored by DLTs and therefore management has reduced oversight of progress or improvement in the control environment and instead relies on Internal Audit to follow up and report progress. Escalation processes when applied by Internal Audit are also not responded to on time.</p>	Head of Internal Audit	August 2021	<p>Internal audit is implementing a new system of tracking the agreed actions with DLTs and CLT on a bi-monthly basis as well as draft report status. The progress against agreed actions will be reported to the Audit Committee who will have the opportunity to request Corporate Directors to attend and explain any delays. In addition, Internal Audit reports progress against the plan including when draft reports are issued. This transparent reporting should improve engagement with Internal Audit.</p>	H
IA27	<p>The Council's external auditors have yet to complete the audit of the 2018/19 financial statements and an audit opinion has still not been provided. Throughout 2019/20 Finance has been focussed on rectifying the significant issues with the 2018/19 statement of accounts. The Corporate Director, Resources has commissioned an independent review to identify the lessons that need to be learnt to avoid similar issues in the future. In addition, the issue of rigorous ownership and accountability for financial resources and for achieving the approved savings targets requires to be addressed to ensure strict financial disciplines across the Council. For 2019/20 GF budget overspend of £10.4 M after the application of £2.8M of Reserves was reported to the Cabinet, which in turn has increased the risk of budget overspend in 2020/21, requiring stringent financial measures</p>	Programme Director - Finance Improvement Team	June 2021	<p>The independent review has been completed and the outcome reported to the Audit Committee. Draft accounts were presented to the Audit Committee in January 2021.</p> <p>The Finance Improvement Plan contains a workstream on Budget Management. The plan is phased and a set of deliverables are being developed for Phase 1 and Phase 2. As part of Phase 1, a new module for budget managers is being introduced in Agresso which will allow easier forecasting. Capital budgets will be loaded onto Agresso for the first time and managers will be</p>	H

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
	to balance the budget for 2020/21 and to identify further savings to avoid use of Reserves.			expected to forecast monthly on Agresso, so there will be monthly capital reporting. A handbook for budget managers was developed and publicised to all staff in March 2020, setting out roles and responsibilities and a series of briefing sessions were held for budget holders. Financial responsibilities will be included as a standard objective for budget managers.	
IA30	Over the last two years there has been no evaluation of how various policies and documents listed in the Corporate Governance Code effectively delivered good governance of the Council. The Code of Corporate Governance should not just record and list a collection of policies and procedures, but there should be an evaluation on a regular basis to assess how these policies and procedures are effectively delivering good governance. Currently there appears to be no mechanism for testing and evaluating the Code and the responsibility for doing so is not defined.	Director of HR & Workforce Development Director Legal Services and Head of Democratic Services Director Strategy, Policy & Performance	December 2021	The key policies will be briefly reviewed and updated if necessary. Once policies are updated it will provide some assurance that the documents referred to in the Code of Corporate Governance are fit for purpose and up to date.	M
GT36	Workforce Strategy should be updated with more realistic milestones and measurable PI's to monitor progress.	Director of HR & Workforce Development	September 2021	KPI's have been redesigned and monthly reported to DLT's has been implemented. Strategy up to 2021 reviewed and view currently being sought from CLT.	M

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
				Revised People and Wellbeing in draft format and due to sign off by April 2021	
IA8	<p>In relation to the capital expenditure profiling, Grant Thornton reported a lack of accurate profiling of capital expenditure with the result that budgets were always showing as underspent. For example, the Capital programme for the 2018/19 was set at £170.4m of which only £25.45m or 15% had been spent as at the end of period 6. It was also reported that there was a lack of buy-in amongst Capital Programme Heads in the Directorates and there was a need to change the culture and create a corporate approach rather than each Directorate operating in silos. Our testing during the 2019/20 audit of Capital governance, showed that the above issues are still on-going. We found that for 2019/20, as at period 6 against the approved capital budget of £325m, the spend was £78.7m, which is 24%. The capital budget was later on adjusted to £378m and as at period 9, the spend was £121m which is 32% of the revised capital budget. It therefore, appears that lack of profiling, which is related to the present limitation of Agresso, and lack of monitoring against this profile results in disproportionate amount of capital expenditure occurring in month 12 with significant slippage in future years. We also noted that Quarterly Capital expenditure monitoring is combined with Quarterly Revenue budget monitoring when reported to Cabinet. It is our opinion that the single Revenue and Capital reporting process can increase the risk that capital expenditure may not be focussed for scrutiny and discussion as much as it deserves.</p>	Programme Director - Finance Improvement Team	July 2021	<p>The September 2019 Cabinet report contained a number of actions that were designed to reduce slippage, including loading capital budgets into Agresso, a review of the way in which procurement processes, the removal of automatic year end slippage into the following year's budget and training. The budgets are currently not on Agresso at all, so once these budgets have been loaded and training has taken place, budget holders will be expected to forecast monthly on Agresso. This will allow budget profiles to be established and reviewed (particularly where virements have been authorised following in year Cabinet decisions). It has been agreed that the Revenue and Capital reports to Cabinet will become separate reports, to ensure that both are scrutinised.</p>	L

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
GT9.	Improve arrangements to ensure compliance with ethical standards, including management monitoring of compliance and ensuring effective ownership.	Director of HR & Workforce Development and Director of Legal Services	Ongoing	Mandatory ethical standards training for councillors has been delivered, quarterly monitoring reports submitted to SAC on complaints of alleged breach of the Member Code. Quarterly reports to SAC on Member declarations of gifts and hospitality. Completion of mandatory staff training (which includes whistleblowing) and completion of staff declarations of interest will be monitored by CLT.	L
GT11	Consider whether arrangements for the appointment of Members to outside bodies provides appropriate support to enable Members to fulfil their responsibilities to the outside body and to the Council.	Head of Democratic Services	April 2021	<p>Currently Members are provided with a guide on being a member of an outside body.</p> <p>Report to the next SAC and seek a view on whether and how to supplement the existing guidance.</p> <p>Report for 22 April 2021 added to the workplan for SAC. (note that the guidance to Members was reviewed back in 2019 when GPC considered a general review of which outside bodies the Council should continue to appoint to).</p>	L
GT12	A Member to Member protocol should be completed as it will demonstrate to staff and the public that Members are concerned about changing their political behaviours and are working in the interests of the Council.	Head of Democratic Services	March 2022	<p>Section 4 of the Member/Officer Relations Protocol contains a section on member to member expectations. The Protocol was presented to SAC in February 2021 and a working group of SAC has been established to consider revisions to the current Code of Conduct for Members and to the Protocol.</p> <p>The content of the Protocol is intrinsically linked to the Code of Conduct and a SAC working group will</p>	L

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
				consider the Protocol when revisions to the current Code of Conduct have been agreed.	
GT45	The Data Quality Policy (last updated 2014) should be reviewed annually.	Head of Intelligence & Performance	June 2021	Policy is being updated and to be presented at Performance Improvement Board and/or CLT.	L
GT5. Page 100	Improve Organisational Culture. The Council should consider how it can address those behaviours which do not support the Council's strategic direction and undermine the revised Constitution, policies and procedures. The culture of weak compliance is allowed to persist through a lack of ownership and accountability within some areas across the Council.	Director of HR & Workforce Development	March 2022	<p>An ethical culture is not solely reliant on process and policy it is about values and behaviours, to support this there are a clear set of developed values (which staff developed) and a clear leadership and management framework in place to enable growth.</p> <p>The organisation regularly undertakes open door sessions on different areas and there are well established staff networks all which support an ethical culture.</p> <p>Tower Values are linked to individual contribution and performance through the My Annual Review Process. It is everyone responsibility to ensure they engage and live the values. Reports for management on completion of the My Annual Review process are now available via the Learning Hub. As the pandemic eases management and staff will have more time to available to improve engagement and compliance.</p>	L

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
GT48	Measures should be introduced to prevent the circumvention of 'compulsory' e-learning modules.	Director of HR & Workforce Development	31 March 2022	<p>The review by Grant Thornton has considered a point in time, rather than taking account of progress over the duration of the current administration and governance approaches in place – in 2019 the CLT signed off a suite of basic mandatory training to include for all managers and staff, with the intent of supporting all staff to be at the same standard of information and understanding in a range of basic things. Up to this point organisational systems were unable to support reports and consistent monitoring of completion and uptake. When staff commence in role as part of their induction a range of basic online and face to face training is undertaken. The improvement is to ensure refreshed and up to date knowledge for all, where staff complete and are signed off from probation this assures basic training and development is completed. A review of the modules is needed along with updates for all staff</p> <p>Since launching the suite of mandatory modules in October 2019, by March 2020 we entered into the pandemic and this has hindered capacity for the workforce to complete all modules, we have reported on this and to ensure responsibility rests with staff the my annual review (MAR) now contains a declaration for staff to affirm they have completed modules.</p> <p>Periodic reports are in place to update CLT on the overall completion of modules, however this resting at local level is where this best fit, and our</p>	L

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
Page 102				<p>communications on this will need to focus on this being everyone’s responsibility. There is a discussion and exploration needed about consequences, for example if mandatory modules not completed is system access disabled, however our ability to enact and join this up is limited, and this is a future aspiration to support building our can do and engaged culture.</p> <p>We have learned that some modules would benefit from refreshing (e.g. GDPR) and other modules may need to be added, there has to be flexibility on completion and this is why the declaration in the MAR enables this. Managers are also able to now run reports in the learning hub to see what is completed by team members, this is a new element of the continuing improvements being put in place for managers and staff.</p>	
GT49	Out of date job descriptions should be redrafted.	Head of HR, Director of HR & Workforce Development, Business Support Relationship Manager	March 2023	<p>Job descriptions are updated using a number of routes, through individual requests and due to restructures, these include updates to reflect our values. There are plans to develop a JD library and systematically update JD’s into more modern templates and to create job families as part of wider reviews, however this is part of BAU work and subject to capacity of available resources and other priorities.</p> <p>A new template is in place for JD’s and incorporates our values. There are insufficient resources to</p>	L

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
				undertake the work required as a project and therefore JD's are being updated in 2021 through MAR review to ensure an up to date JD is issued. Re job library, job families, this work requires additional investment/ROI analysis and systems development and additional resource to deliver.	
IA2 Page 103	There is a requirement for each Head of Service to prepare a service/team plan in the required format to ensure that services have local improvement activities which align with the Council's Strategic Plan and the Mayor's manifesto commitments. The Strategic Plan outlines the Council's approach to tackling inequality and improving outcomes for residents and has priorities and outcomes for reducing inequality. We tested 25 service plans for 2019/20 and found that only 6 service plans had actions specified against the Council's equalities objectives and service improvements which aligned with the Strategic Plan action.	Director Strategy, Policy & Performance	September 2021	<p>The council has a robust business planning framework and has periodically through CLT reviewed the number and quality of these plans and reported publicly through our more recent improvement planning activity. The number of strategies and plans has reduced, and this continues to be refined. It is the responsibility of all services, divisions and directorates to ensure effective planning and delivery of work that contributes to delivery of corporate priorities (the Strategic Plan).</p> <p>As a result of the pandemic the council adopted a lighter touch approach recognising services were entirely focussed on delivering on the pandemic. Service planning guidance and templates were available for managers to carry out the necessary business planning. As part of service planning guidance, all service managers and Directors are provided with a schedule of corporate equalities objectives and strategic plan actions assigned to their area of responsibility. This aims to ensure that relevant actions linked to these are included in</p>	L

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
				<p>service plans. Responsibility for inclusion of actions rests with plan owners.</p> <p>In 2021/22, depending on the pandemic, the council will resume a quality assurance process producing a report to CLT outlining themes/issues/improvements.</p> <p>Guidance for the next year will be issued following agreement of 2021-2024 Strategic Plan by Cabinet in April 2021.</p>	
IA7	<p>A Partnership Board and Partnership Executive Group (PEG), chaired by the Mayor, representing wider system of partners within the borough has been established. However, we noted that the governance of the partnership and the PEG still requires to be addressed for successful partnership to work. For example, the PEG has no clear Terms of Reference and work programme. Although meetings of the PEG are held regularly and minutes/notes of the meetings are taken, minutes do not show who is required to attend, who has attended and in what capacity. In addition, any actions that need to be taken and followed up are also not recorded. A clear governance structure for the partnership to work effectively still needs to be put in place.</p>	<p>Director Strategy, Policy & Performance</p>	<p>September 2021</p>	<p>In 2018 the LGA Corporate Peer challenge noted good working relationships had developed with partners who were interested in collaboration. Since then, partners have developed a robust borough wide plan that sets out its priorities, outcomes and ways of working. This has been further strengthened during the pandemic with all agencies focussed on protecting residents.</p> <p>Terms of reference for PEG will be developed and published on the Council website all other actions have been completed.</p>	<p>L</p>
GT22	<p>The Council should document the impact that the agreed outcomes, together with the actions it plans to deliver these outcomes, will have on citizens and service users. This should be included within the Directorate Plans.</p>	<p>Director Strategy, Policy & Performance</p>	<p>June 2021</p>	<p>The council's strategic plan sets out the outcomes and anticipated impact on citizens and service users. Performance related to these outcomes are reported to cabinet regularly.</p>	<p>L</p>

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				<p>All service plan guidance documentation clearly links service level activity to corporate outcomes as part of the council's adoption of outcomes-based accountability. Where service plan level activity supports strategic outcomes, this is clearly visible through the golden thread. Service plans also include operational and internal activity which will not be explicitly linked to corporate outcomes.</p> <p>As part of the next round of service planning, Corporate Directors should review service plans to ensure that where possible service plans document the impact that outcomes will have on citizen and service users.</p> <p>Guidance for the next year will be issued following agreement of 2021-2024 Strategic Plan by Cabinet in April 2021.</p>	
GT55	<p>There is a lack of published transparent plans for achieving Value for Money with targets and indicators, and reports of outcomes from those plans clearly demonstrating a holistic view to application of public funds.</p> <p>In addition, the Council had a Value for Money qualification on its accounts for 2013/14 leading to the appointment of external Commissioners, by the government. This led to further qualifications in subsequent years. Although steps have been taken to rectify these issues the accounts for 2015/16 had not been signed at the time of our review. The Annual Governance Statement in the Annual Report</p>	Director Strategy, Policy & Performance and Corporate Director, Resources.	March 2022	<p>CLT have access to information that benchmarks the costs of services and has used this to inform discussion and is investing in improving intelligence and performance functions to ensure there is better join-up of information across council.</p> <p>The Council cannot consider an outcome-based budgeting approach at this point, as there are a number of building blocks that would need to be in place and the focus is on the first phase of Finance Improvement Plan and future phases of it. In the</p>	L

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
Page 106	<p>sets out the steps that the Council is taking to address these issues. The Annual Report also has a brief description about how the Council achieves Value for Money but it is very brief.</p> <p>A number of strategies are published which explain how relating activities can be directed to achieve Value for Money savings e.g. Procurement Strategy and Asset Management Plan. These documents are helpful to the readers but overall what is needed to demonstrate Value for Money is a corporate view linking all the plans/strategies together with specific objectives and finances i.e. Integrated Reporting, a holistic approach report that can be used to identify synergies from the relationships between different parts of the organisation and different activities.</p>			meantime, it will be revamping its service efficiency and effectiveness reviews.	
GT3	Budget managers need to accept ownership of and accountability for budgets. Sanctions for non-compliance should be introduced. There is a complacent attitude by managers with respect to finding budget cuts which needs to be addressed.	Programme Director - Finance Improvement Team	June 2021	The Finance Improvement Plan contains a workstream on Budget Management. The plan is phased, and a set of deliverables are being developed for Phase 1 and Phase 2. As part of Phase 1, a new module for budget managers is being introduced in Agresso which will allow easier forecasting. Capital budgets will be loaded onto Agresso for the first time and managers will be expected to forecast monthly on Agresso, so there will be monthly capital reporting. A handbook for budget managers was developed and publicised to all staff in March 2020, setting out roles and responsibilities and a series of briefing sessions were held for budget holders. Financial responsibilities will be included as a standard objective for budget managers.	L

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GT33	There is a need for a much stronger leadership role for finance staff in operational directorates; finance staff need to adopt a much more challenging approach in their work with budget managers. A finance function service plan is required including agreed performance targets. Finance input to business cases needs to be on a timely basis in order to be able to influence decision making. The role of business partners should be made more effective by training in commercial awareness and they should be encouraged to help to drive transformation by sitting on DMT's.	Programme Director - Finance Improvement Team	March 2022	<p>There was a Finance restructure in 2018, with new Business Partner Teams established. Heads of Strategic Finance now sit on DLTs.</p> <p>The Finance Improvement Plan will include establishing a finance function service plan and a learning and development plan for ensuring a consistent skill level across all business partners; commercial awareness will form part of this and specific training needs will be assessed at that point.</p>	L
GT34	The Council lacks capacity and capabilities within its support service, finance and performance, to both monitor performance effectively, act on recommendations, and provide resources, this needs to be improved.	<p>Director Strategy, Policy & Performance</p> <p>Programme Director - Finance Improvement Team</p>	March 2022	<p>As part of our improvement journey performance arrangements have been improved and set out in our performance management and accountability framework which include a focus on roles and responsibilities for Members and officers. Performance is reported to CLT and Cabinet as well as OSC. Corrective action is taken as appropriate. The Chief Executive chairs the performance improvement board and a programme of service reviews to ensure under-performance is addressed. Work is underway to bring greater alignment and analysis of financial information and service activity.</p> <p>As stated above, the Finance function structure was reviewed in 2018 but will now be further reviewed to ensure that there is the right level of resources with the required skillset that will enable further improvement so that the service is fit for purpose now and sustainably.</p>	L

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
				Progress on this issue is being separately monitored by the performance improvement board.	
GT41	Managers require a much clearer understanding of how to achieve Value for Money. Training is required to increase their understanding and achieve greater consistency.	Director of Finance and Programme Director - Finance Improvement Team	March 2022	A future phase of the Finance Improvement Plan will contain a workstream on VFM. However Phase 2 of the FIP Budget Management workstream will contain a significant deliverable and is in effect a key dependency, i.e. the systematic realignment of the Council's budgets, cost centre by cost centre. This will ensure that there is a sound basis for managers and members to take forward improved Value for Money and produce robust and accurate management information which will allow for improved decision making at a budget holder level and a strategic and Member level. This significant workstream will require investment into additional resource to complete the in depth reviews with Budget Managers that will result in budget realignment.	L
GT47	Training on financial systems (especially the General Ledger) is required to address an absence of understanding of detailed activity costs.	Programme Director - Finance Improvement Team	March 2022	Training is essential and will be addressed within the FIP. This cross references to the requirement set out in the response to GT 41 to ensure that budgets are realigned so that Budget Holders understand their budgets and are better placed to manage them.	L

No.	Grant Thornton (from 2018) and/or Internal Audit Issues/Recommendations (from 2019)	Responsible Officer(s)	Completion Target Date	Progress and Further Actions	Priority (L/M/H)
GT53	Financial transaction systems need urgent improvement. In particular steps should be taken to reduce the high level of coding errors in the General Ledger, the automated invoice matching process should be improved to reduce the level of duplicate payments and the high level of inaccuracy in journal posting in the GL workflow system should be addressed.	Programme Director - Finance Improvement Team	March 2022	As part of the Finance Improvement Plan Phase 2, the reasons why the high volumes of journals are generated will be reviewed; there is significant potential to ensure that income and expenditure is coded correctly at source, thus removing the requirements for journals. Phase 2 will in addition contain a wider review of corporate systems and processes including Agresso, Procure to Pay, HR and Income Management. Once a decision has been made about whether the best solution for Tower Hamlets is an Enterprise Resource Planning (ERP) system or best of breed systems, a new workstream on systems and processes will be established as part of the Finance Improvement Plan. Either of these options will require significant investment.	L
IA24	The current Code of Corporate Governance states that the Council's Corporate Portfolio Management Office is responsible for setting standards for programme and project management to make sure we can be excellent in delivering change. Our enquiries found that a Framework was developed for Portfolio, Programme and Project management in 2018 and was approved by the CLT. However, it has not been rolled out widely in the Council and necessary training has not been provided to all staff. We were also informed that other teams like ICT and Capital Delivery have their own set of standards which may not align with the approved Corporate Framework. Therefore, the Council as a whole may not be effectively managing the totality of its change initiatives. In addition, there does not appear to be Post-Implementation reviews of big organisational changes and restructures such as Business Support, Customer Service,	Head of Corporate Portfolio Management Office	September 2021	A revised Portfolio, Programme and Project management framework has now been completed with associated templates, although this has not yet been formally adopted and will need to be consulted on more widely before that takes place. Resourcing constraints have continued to present challenges re: completing post project reviews as the team has been reduced by 25% in the current year with a freeze on filling vacant posts in response to the council's financial position. Our focus has been on delivery of current projects.	L

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	HR, Finance, and SPP Phase 1. Consequently, the success of these changes in achieving the set objectives and lessons learnt are not assessed, evaluated and reported through to the governance process and to the Mayor and Cabinet.				

London Borough of Tower Hamlets Good Governance

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15 June 2018

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25 June 2018

FAO Steven Tinkler, Interim Head of Risk Management and Audit

Dear Steven

Review of the Council's governance arrangements against CIPFA's "Delivering Good Governance in Local Government" (2016).

We have pleasure in enclosing a copy of our final report in accordance with your instructions outlined in the contract variation dated 21 February 2018. This document (the Report) has been prepared by Grant Thornton UK LLP (Grant Thornton) for the purpose of reporting our findings from our review of the governance arrangements (the Project) of London Borough of Tower Hamlets (the Council). The report sets out the findings from our work.

We agree that the Council may disclose our Report to its professional advisers directly involved in the appraisal of the Project, and also to officers and Members of the Council solely in relation to the Project, or as required by law or regulation, the rules or order of a stock exchange, court or supervisory, regulatory, governmental or judicial authority without our prior written consent but in each case strictly on the basis that prior to disclosure you inform such parties that (i) disclosure by them is not permitted without our prior written consent, and (ii) we accept no duty of care nor assume responsibility to any person other than the Addressee.

The Report should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent, such consent will only be given after full consideration of the circumstances at the time.

These requirements do not apply to any information, which is, or becomes, publicly available or is shown to have been made so available (otherwise than through a breach of a confidentiality obligation).

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council for our work, our Report and other communications, or for any opinions we have formed. We do not accept any responsibility for any loss or damages arising out of the use of the report by the addressee(s) for any purpose other than in connection with the Project.

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Forms of report

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

General

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

Notwithstanding the scope of this engagement, responsibility for management decisions will remain solely with the Council and not Grant Thornton. The Council should perform a credible review of the observations and options in order to determine which to implement following our advice.

Sources of information

Where our work is based primarily on information and explanations provided to us by the management team of the Council, our work will be carried out on the assumption that the information is reliable and, in all material respects, accurate and complete. We will not subject the information to checking or verification procedures except to the extent expressly stated.

Contacts

If there are any matters upon which you require clarification or further information please contact Guy Clifton (020 7728 2903, guy.Clifton@uk.gt.com) or Ginette Beal (0117 3057623, ginette.beal@uk.gt.com).

Yours sincerely

Guy Clifton
Head of Local Government Advisory
For Grant Thornton UK LLP

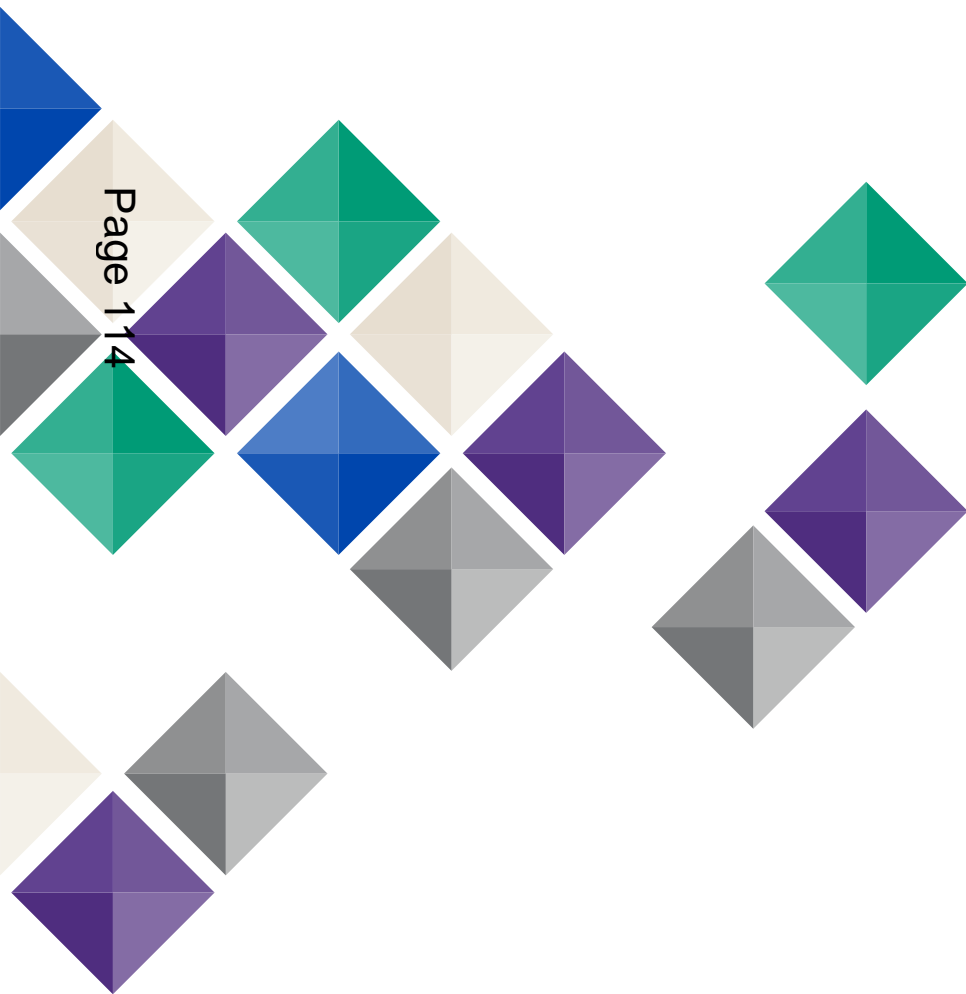
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Executive Summary

Approach

Grant Thornton, the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Centre for Public Scrutiny (CfPS), with Grant Thornton leading, have been jointly commissioned to assess the effectiveness of the Council's arrangements against CIPFA's "Delivering Good Governance in Local Government" Framework (2016). Together, we have provided specialist experience and knowledge. We have utilised our experience so that those individuals from each of the three organisations have focused on their respective specialisms with our findings presented in this report.

Our approach included:

- review of the Council's core governance roles as set out in its constitution, associated schemes of delegation, and any supporting documents, and consideration of the responsibilities and accountabilities within the Council's governance and management structure
- mapping and assessing the effectiveness of the Council's arrangements against the 7 Principles and 21 sub-principles set out in CIPFA's "Delivering Good Governance in Local Government" Framework (2016), current best practice. The framework sets out 91 specified behaviours and actions that demonstrate good governance, each with a number of systems, processes and documents to be used as evidence. We have considered these behaviours to assess the Council's processes.

In order to meet the short timeframe of this review we have undertaken a high-level review, further more detailed assessment would be required to confirm how embedded the assurances processes are across the Council.

Our reviewed included the following:

- documentation review, a wide range of documentation from across the Council
- stakeholder meetings in those areas where further information was required and to confirm our understanding.

This was an optional review that the Council chose to undertake to assess its governance arrangements in line with best practice, to ensure continuous improvement and to be recognised as leading edge in comparison to others. This review forms part of the Council's approach to achieving this recognition.

The Annual Governance Statement is a statutory document that explains the processes and procedures in place to enable the Council to carry out its functions effectively. It is of corporate importance and applies to processes and procedures across the Council, not just financial systems, processes and procedures.

Our findings and key issues are summarised against the seven principles of the CIPFA code as follows:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Summary Findings

The Council is part-way through a significant programme of change in response to well documented governance failures, leading to external intervention by Commissioners. The Council has invested significant effort and worked at pace to respond to these issues.

However, the Council is now left with a complex governance structure with a range of committees and sub-committees which were created to support improvement activity. Our findings suggest officers feel that these structures are inflexible at times and lead to duplication of effort. Our findings further suggest that middle management do not feel empowered due to the legacy of intervention, complex accountability structures, and the need for a wide range of decisions and information to progress through multiple decision-making bodies to the Corporate Leadership Team and Members.

Executive Summary (cont'd)

Summary Findings (cont'd)

Our findings identify some good practice in relation to governance, in particular that relevant policies, procedures and codes of conduct do appear to be in place. However a residual culture of weak compliance is acting as a brake on improvement efforts and good practice is not yet embedded across the Council.

For example, we have identified a lack of compliance in areas such as completion of service plans (known as Team Plans), registration of gifts and hospitality, financial and performance management, and response to recommendations raised by Internal Audit. The indications are that this culture of weak compliance is allowed to persist through a lack of ownership and accountability within some areas across the Council.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The Council has a range of documents and codes in place that provide the basis for an effective governance framework, such as the codes of conducts and guidelines on Declaration of interests and gifts and hospitality. Guidance for Members is provided through the Constitution.

The Council recognises issues around the consistency of engagement with Members in key governance processes. Cross-party engagement and effective consistent engagement from independent Members are areas for improvement.

This was recognised as an issue by the Commissioners and a range of initiatives were introduced to improve the level of engagement of independent Members, such as the Governance Review Working Group, a number of protocols and a review of scrutiny arrangements.

We identified that arrangements for officers are being undermined by a lack of consistency and compliance. The registers for employees (gifts and hospitality) are not consistently maintained and monitored across the Directorates, as evidenced by an internal audit review of Control and Monitoring of Hospitality Arrangements in 2016.

Our own review of the hospitality register for Members, identified that only seven Members (including the Mayor) have registered a hospitality or gift since 2015. Based on our experience from elsewhere this seems surprisingly low, and so may indicate a need for support to Members to assist them in understanding their obligations in this area.

A more detailed review of Member Registers of Interest– including on individual Members' web pages - is recommended to draw more in-depth conclusions.

We are aware that attendance at mandatory training for employees could be improved. Unfortunately the Council is not able to effectively monitor attendance, however, there are indications that action is taken for non-attendance in some cases.

The Council has a tracking system in place to ensure that all reports and decisions to both Members and CLT are reviewed and commented upon by legal and finance representatives. We recognise the need for this level of rigour, however this process does not always support effective decision-making in that poor engagement earlier in the process of developing proposals leads to delays and limited opportunity for a more collaborative approach. This tracking process also creates a considerable administrative overhead for the organisation.

The Council provides a range of training for Members, including induction training. However, this training is generic and would be more beneficial if it focused on the individual needs of Councillors.

B. Ensuring openness and comprehensive stakeholder engagement

The Mayor's Transparency Protocol and the Transparency Commission established in September 2015, along with the separate Clear-up project, demonstrate the Council's public commitment to openness and transparency. In addition decisions taken by Members and officers are documented on the Council's website. These are positive and welcome steps.

Well-documented historical weaknesses in the award of grants have been addressed, including through establishment of the Grant Determination Committee. An additional layer of scrutiny was introduced through the Grants Scrutiny Sub-Committee. Both are public committees and all decisions are also available on the Council's website. Again, these changes have done much to respond to weaknesses of the past.

The Council is in the process of engaging with its partners to refresh its Community Plan and reinvigorate the Tower Hamlets Partnership. This is a step in the right direction towards evolving from collaboration based on statutory requirements alone to more strategic alliances and partnerships based on trust and shared priorities.

Executive Summary (cont'd)

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Council's vision and priorities are set out in the Community Plan. The outcomes and priorities within this document were developed and agreed with the previous administration and elected mayor, as a result they may not fully reflect the strategic direction of the current administration. Work is underway to refresh the Community Plan and collaboration with the Tower Hamlets Partnership. This should ensure the current administration collectively agrees the vision and supporting outcomes for the Council. In addition, the Council's efforts to develop and embed a renewed focus on priority outcomes for local communities is positive.

There is room for improvement in how the Council articulates its priority outcomes in terms of social and environmental impact, and how it intends to use Social Value legislation to improve the economic, social and environmental well-being of Tower Hamlets through its commissioning and procurement arrangements.

The Council should update its capital strategy to reflect the changing socio-economic conditions in the Borough, and also consider amending existing processes for approval of capital expenditure. Currently capital plans are developed within individual Directorates and would benefit from the introduction of a central gateway process to ensure a consistent approach and to enable resources to be consistently aligned to the Council's strategic priorities.

The Council's agreed outcomes are documented within Directorate Service Plans and should be documented within Team Plans. However, we have established that Teams plans are not in place in all Directorates.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Most interventions during 2016/17 were driven by the need to comply with Commissioners' requirements. As at February 2017 all 205 actions in the Best Value Action Plan put in place by Commissioners have been delivered with further implementation activity set out in Tower Hamlets Best Value Improvement Plan 2017/18. These interventions were reactive in nature and required to bring governance arrangements up to standard. The resulting governance framework now needs to be streamlined.

The Council has a range of strategies to assist it in delivering the necessary interventions, such as the MTFS, assets strategy and workforce strategy. Greater synergy is required between this family of strategies as they do not visibly support each other at present and there is no sense of a single set of priority outcomes that drive all strategies. The Council is therefore not yet in a position where it can be clear about its prioritisation of resources in relation to desired outcomes.

Outcome-based budgeting has been introduced to address this whilst achieving the savings required, although change is not yet fully embedded across the Council.

Based on CIPFA's Financial Management Model, we have identified that ownership of financial management and budgets, including savings targets, is inconsistent across services. The Council's finance function is currently decentralised and there is evidence of ineffective links with departments. Corporate finance have the role of challenge and of providing advice to Senior Management/Members for decision-making purposes but this is not as effective as it should be. The finance business partner role is also not working effectively. Finance are not yet in a position to assert their influence and ensure that budgets are achieved. In addition, failure to address budget over and under spends needs to be addressed, including the use of reserves. The Council is currently reviewing its finance structures, which may offer part of the solution to these issues.

The Council has established improvement boards, for areas in which performance has been identified as below expectations. However, the Ofsted inspection of Children's Services identified that the Children's Services Intervention Board was not effective. Ofsted confirmed that it was established in September 2016 and had limited impact, it lacked an overarching strategic plan to systematically drive the extensive change required.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The majority of Corporate Directors and Senior Managers are relatively new in post and are therefore developing as a team. The Council is working to improve the capabilities of its wider leadership cohort, including middle management, and there is agreement that much work remains to be done to ensure consistent skills in this group. In addition staff structures and reviews have been undertaken which have identified weakness in staff skills and capacity, such as the Third Sector Team and Youth Services. A restructuring process is underway within the Resources Directorate with the aim of addressing capability and capacity issues.

As discussed earlier the governance structure has changed and been modified to address weaknesses identified by Commissioners. As well as increasing the risk of duplication, the increase in committees and Boards will also have an impact on capacity.

Executive Summary (cont'd)

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it (cont'd)

In recent years, several key posts have been occupied by interim staff, often responsible for areas to do with transformation and ensuring sustainability of outcomes. There is a sense that this has led to a lack of continuity and loss of corporate knowledge, which in turn has impacted on the Council's ability to achieve sustainable outcomes, enabling processes to be embedded and ownership of inherited strategies to be achieved.

F. Managing risks and performance through robust internal control and strong public financial management

Risk management systems are operating within the Council, but compliance and embedding risk management in operational practice requires improvement. The management information provided by the risk management IT system is not shared, updated and used effectively by risk and control owners, indicating the need for a behavioural change.

Focusing specifically on financial management, as part of this review CIPFA has concluded that the Council has an adequate system of internal control in place. However, compliance with Internal Audit recommendations is an issue that should be addressed with improved tracking and accountability.

Financial management needs to be fully embedded and reinforced at all levels of the organisation. Improving outdated financial systems should be underpinned by stronger strategic leadership needed to promote ownership and accountability for financial management. For example, behaviours such as the circumventing of mandatory training should be discouraged, and actions to enforce personal accountability over a failure to deliver targeted savings should be undertaken.

Performance management – both financial and operational - is an area for development. There is a lack of high quality performance data based on clear outcomes and priorities. Supporting systems are not robust or regularly updated. Performance systems and processes are also undermined by the absence of adequate budget information and a weak performance management culture. The Council has taken significant steps in addressing the former through the use of a new performance management system – Covalent – which is aimed at aligning spend and performance monitoring. This system is in the process of being implemented.

The Ofsted inspection of children's services identified that performance management and quality assurance systems were not underpinned by reliable management information. An improvement board has been established to address the recommendations made by Ofsted.

As discussed earlier risk and performance management processes are also undermined by a lack of team plans in some areas. Without these the Council lacks the baseline against which performance can be monitored in those areas.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Committee reports are available on the Council's website and provide adequate information to support decision making. However, the systems in place to review and authorise reports may be having an impact on the time taken to reach decision makers. It is standard practice for financial and performance reports to take three months before they are seen by Cabinet – this is significantly longer than in our experience elsewhere.







The Council received a qualified VfM conclusion from auditors in 2015/16, but otherwise met its statutory financial requirements and reporting deadlines.

A summary of the RAG ratings for each of the principles can be found overleaf.

Executive Summary (Cont'd)

We have graded the quality of the evidence we were provided and fitness for purpose of the Councils arrangements using a Red/Amber/Green (RAG) approach as set out here.

In each of the areas we considered the direction of travel.

-  **Arrangements meet or exceed adequate standards.** Adequate arrangements identified and key characteristics of good practice appear to be in place.
-  **Potential Risks and/or weaknesses.** Adequate arrangements and characteristics are in place in some respects but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
-  **High risk.** The Council's arrangements are generally inadequate or may have a high risk of not succeeding.
-  **Improving:** The indication is that arrangements are improving over time
-  **Neither improving or deteriorating.** No evidence of improvement or deterioration
-  **Deteriorating.** Indications are that arrangements are deteriorating over time







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Principles	Sub Principles	RAG rating 2017	Direction of Travel
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	A1. Behaving with integrity	Yellow	Upward arrow
	A2. Demonstrating strong commitment to ethical values	Yellow	Upward arrow
	A3. Respecting the rule of law	Yellow	Upward arrow
B. Ensuring openness and comprehensive stakeholder engagement	B1. Openness	Green	Upward arrow
	B2. Engaging comprehensively with institutional stakeholders	Yellow	Upward arrow
	B3. Engaging stakeholders effectively, including individual citizens and service users	Green	Double-headed vertical arrow
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits	C1. Defining outcomes	Yellow	Upward arrow
	C2. Sustainable economic, social and environmental benefits	Yellow	Double-headed vertical arrow
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	D1. Determining interventions	Red	Upward arrow
	D2. Planning interventions	Red	Upward arrow
	D3. Optimising achievement of intended outcomes	Red	Upward arrow

Executive Summary (Cont'd)

We have graded the quality of the evidence we were provided and fitness for purpose of the Councils arrangements using a Red/Amber/Green (RAG) approach as set out here.

In each of the areas we considered the direction of travel.

-  **Arrangements meet or exceed adequate standards.** Adequate arrangements identified and key characteristics of good practice appear to be in place.
-  **Potential Risks and/or weaknesses.** Adequate arrangements and characteristics are in place in some respects but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
-  **High risk:** The Council's arrangements are generally inadequate or may have a high risk of not succeeding.
-  **Improving:** The indication is that arrangement are improving over time
-  **Neither improving or deteriorating.** No evidence of improvement or deterioration
-  **Deteriorating.** Indications are that arrangements are deteriorating over time

Principles	Sub Principles	RAG rating 2017	Direction of travel
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	E1. Developing the entity's capacity	Red	Upward arrow
	E2. Developing the capability of the entity's leadership and other individuals	Red	Upward arrow
F. Managing risks and performance through robust internal control and strong public financial management	F1. Managing Risk	Yellow	Upward arrow
	F2. Managing Performance	Red	Upward arrow
	F3. Robust Internal Control	Green	Double-headed arrow
	F4. Managing Data	Green	Double-headed arrow
	F5. Strong Public Financial Management	Red	Double-headed arrow
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability	G1. Implementing good practice in transparency	Green	Upward arrow
	G2. Implementing good practices in reporting	Yellow	Upward arrow
	G3. Assurance and effective accountability	Yellow	Double-headed arrow

Acknowledgement

We would like to thank all officers for their assistance in conducting this review.


Observations

We have identified the following cross-cutting observations, if these actions are implemented then the governance arrangements within the council should improve.


Observations	
Governance Structure	<p>Review the existing governance structure to ensure it is efficient and effective. The Council is part-way through a significant programme of change in response to well documented governance failures, leading to external intervention by Commissioners. The Council has invested significant effort and worked at pace to respond to these issues. However, the Council is now left with a complex governance structure with a range of committees and sub-committees which were created to support improvement activity. Officers feel that these structures are inflexible at times and lead to duplication of effort. We consider that the Council would benefit from reviewing these arrangements to assess if they could be streamlined.</p>
Maintaining appropriate governance systems policies and procedures and ensuring compliance	<p>Ensure policies and procedures are up to date and fit for purpose. Policies and procedures provide the basis for how employees should behave and carry out their duties and functions. They should be reviewed annually and updated to ensure they remain fit for purpose. The interdependencies of differing policies and procedures should be considered and taken into account. Consideration should be given to how these could remain 'living documents'. Staff should be regularly trained and asked to confirm their understanding; this could be achieved through annual declarations and an adequate tracking mechanism.</p>
Improve the performance management system and the quality and accuracy of the management information which supports it	<p>The Council should improve performance management information so that it can support effective decision making and enable appropriate interventions to be undertaken to support its intended outcomes and priorities. Directorate Service Plans should be supported by Team Plans across the Council and should be monitored through agreed assurance processes.</p>
Improve the arrangements within Children's Services	<p>The Council has accepted the recommendations made by Ofsted and an Improvement Board has been established and should continue to implement these recommendations.</p>
Culture and engagement	<p>Improve Organisational Culture The Council should consider how it can address those behaviours which do not support the Council's strategic direction and undermine the revised Constitution, policies and procedures. The culture of weak compliance is allowed to persist through a lack of ownership and accountability within some areas across the Council.</p> <p>Continue to work with Members to improve engagement The Council should continue to improve cross party engagement and should build on the work begun by the Governance Review Working Group.</p>
Financial management	<p>Improve Financial Management The Council has accepted the findings within CIPFA's Review of Financial management. It should continue to address the recommendations raised.</p>

Summary Findings

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Sub-principle	Summary findings	Rating	Direction of Travel
<p>A1.</p> <p>Behaving with integrity</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 123</p>	<p>The Council has a range of documents available to officers that provide guidelines on ethical behaviour, such as the Code of Conduct and guidelines on Declarations of interests and gifts and hospitality. Guidance for Members is provided through the Constitution. However, the indications are that behaviours for officers and Members may deviate from the Council's policy requirements.</p> <p>➤ Declarations of Interest. Gifts and Hospitality</p> <p>The Council provides written guidance for officers and line managers on completing Declarations of Interest, this is included in the Employee Code of Conduct and the Staff Handbook. Failure to complete annual declarations of interest by officers has been addressed in 2016/17. Employees are reminded more regularly to complete their annual declaration of interest by the HR Service. We understand (based on the Council's response to External Audit) that current completion rate is 99.75%. We are aware that the current system used to record this information does not enable a summary to be available to managers, which limits managers' ability to proactively manage any conflicts.</p> <p>The Hospitality Policy clearly states a zero-tolerance policy towards accepting outside gifts and hospitality. Hospitality is discouraged and the document draws a clear link between acceptance of hospitality and the negative impact on perception of public service. The Hospitality Procedure was last reviewed in 2011 and a recommendation made by Internal Audit in November 2016 to update the policy remains outstanding.</p> <p>We reviewed the gifts and hospitality register and selected a small sample of Members. Our review identified that the annual declaration is completed. The gifts and hospitality register, however, suggests limited understanding and that items may be being accepted but not reported. A more detailed review of Member Registers of Interest – including on individual Members' web pages - is necessary to draw more detailed conclusions.</p> <p>The staff hospitality registers are maintained by the individual directorates. Internal Audit established that maintenance of these registers is not consistent across the Council, with the majority of Directorates not monitoring compliance with the Council's policy.</p> <p>We reviewed the quality of governance discussions at Standards Committee. Discussions suggest Members are not owning governance reform through role modelling; governance is seen as narrowly being the remit of two working groups. Debates about timesheet-keeping demonstrate that they place too much reliance on directives from the Cross-party Governance Review Working Group.</p> <p>Member induction training is provided, this training is generic and would be more beneficial if it focused on the individual needs of Councillors.</p>	<p>Potential risks and weaknesses</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> Existing policies that underpin the Council's ethical standards should be updated and reviewed annually to ensure their effectiveness. Arrangements should be improved to ensure compliance with the Council's ethical standards. This should include the role of Management to ensure monitoring compliance and effective ownership. Member induction should be focused on the needs of individual Councillors. 			

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law (cont'd)

Sub-principle	Summary findings	Rating	Direction of Travel
<p>A2.</p> <p>Demonstrating strong commitment to ethical values</p>	<p>The Council has achieved much to create the right conditions for embedding ethical values. However, the indications are that the commitment is inconsistent across parties and individual Members.</p> <p>The establishment of the Transparency Commission and the Clear-up project have demonstrated the Council's commitment to openness and transparency. Statements from the Mayor within documents such as the Community Plan also demonstrate the Council's leadership commitment to openness and transparency.</p> <p>The Council's Constitution and updated sections include the Nolan principles. The section on Standards and Ethics provides the basis, but does not contain a clear statement setting out Members requirement to uphold the Nolan principles.</p> <p>The Council has recognised that its values required review and updating. These have been agreed and are being cascaded to all staff. Work to re-establish the Local Strategic Partnership has also begun, and when completed, should ensure that the Council's values have been shared with key partners and the local community.</p> <p>Ethical behaviour is embedded in the procurement and commissioning process. An ethical Supplier Code of Conduct is in place; all procurement contracts require suppliers to sign up to this. Ethical requirements also cover a London living wage requirement and fair trade standards. Our experience, however, indicates that this code is not being consistently applied across all procurement routes.</p> <p>Commitment by Members to ethical values is not consistent across the Council. This is due to the varying degrees of engagement of Members with key initiatives to increase and embed ethical principles into Member conduct (for example, a number of working groups). The Council is aware that it needs to improve Member arrangements and has progressed this through cross party working in the Governance and Constitution Review working groups and the development of Member to Officer and Member to Member protocols. Ethical training features in the latest Member Learning and Development programme. However, key stakeholders involved in supporting Members are not aware of the training and were unable to provide details. Review of DOI and Member Attendance training disclosed at Standards Committee shows a poor record of mandatory training attendance.</p> <p>We heard from officers that SOLACE is supporting Council work on Member to Member behaviour and are also producing a protocol from this work. The Member officer protocol is also being redrafted which will take into account learning arising from the SOLACE input. There are still challenges in engaging with some independent Members and in ensuring that some Members fully understand their roles and responsibilities. We are concerned that it is not clear who has the responsibility for encouraging engagement of independent Councillors in the wider business of the Council.</p>	<p>Potential risks and weaknesses</p>	


A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law (cont'd)

Sub-principle

Observations


- The Council should consider whether existing arrangements in the appointment of Members to external bodies provides the appropriate level of support to enable them to fulfil their roles and responsibilities to both the external body and the Council.
- In its plans for Member induction following May 2018 local elections, the Council should consider the needs of Councillors who may require additional support to carry out their roles and responsibilities and make arrangements for providing this support.
- The Member to Member protocol should be completed as it will demonstrate to staff and the public that Members are concerned about changing their political behaviours and are working in the interests of the Council.
- The setting up of a Whips Working Group may be helpful in taking forward and ensuring that a political culture is based on the Nolan principles. This will underpin the way in which Members take forward their roles and carry out their responsibilities.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law (cont'd)

Sub-principle	Summary findings	Rating	Direction of Travel
<p>A3.</p> <p>Respecting the rule of law</p>	<p>The constitution sets out the procedures for Members of the Planning and Licensing Committees. Members must attend mandatory training sessions which sets out the law, policies and associated regulations for these quasi-judicial areas. It also sets out the specific functions and duties associated with key officers plus schemes of delegations. Article 13 outlines the Decision making framework.</p> <p>Committee reports include a section for legal comments. Our conversations with the Monitoring Officer indicate that members of the legal team provide legal comments before every CLT and every full Council meeting.</p> <p>The Council has a process in place that tracks and logs all reports to ensure they have been reviewed by the legal and finance departments. However concerns were raised that this process is inflexible and risk averse. In addition the advice and support provided is viewed as 'bolt on' and is often provided at a late stage in the process and should be delivered in a more collaborative way with constant dialogue.</p> <p>The lifting of directions, indicates that the Council is also now complying with its statutory Best Value duty to a sufficient extent.</p> <p>The Council sets out employees' responsibilities within its Anti-Fraud and Corruption Strategy and includes reference to Nolan's seven principle of public life. In addition the Financial Regulations and the Officers Code of Conduct require staff to raise their concerns where irregularity is suspected.</p> <p>We are aware that officers may not always fully understand and correctly apply the policies and procedures in place and as a result may incorrectly respond or deal with issues. This lack of understanding and knowledge leaves the Council exposed to legal challenge. For example treating a whistleblowing concern as a staff grievance could result in reputational damage as well as legal challenge.</p>	<p>Potential risks and weaknesses</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> The Council should consider how it can introduce greater flexibility within the governance structure and ensure that support functions such as finance and legal are engaged in the preparation and build up of key decision making reports. The current inflexible approach impacts on decision making, it delays the process or creates a tendency to provide the information without proper advice. A consultative/collaborative approach is required to ensure information is provided at key stages. 			


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B. Ensuring openness and comprehensive stakeholder engagement


Sub-principle	Summary findings	Rating	Direction of Travel
<p>B1. Openness</p>	<p>The Council has demonstrated openness through the Mayor's Transparency Protocol and the Transparency Commissions initiated by the Mayor. It sought to reduce the use of individual mayoral decisions, and the consideration of reports as exempt items.</p> <p>The Transparency Report suggests introducing openness as part of the organisation's core values. This had not been reflected in the Core Values for 2016/17. However the recently announced TOWER values framework clearly identifies 'openness' as a value.</p> <p>Our review of Individual Mayoral Decisions taken through the Executive Mayoral Decisions procedure found them to be well founded, outlining the reasons for the decisions as well as consideration of alternative options. A summary report covering all Mayoral decisions is also presented to Cabinet.</p> <p>Decisions taken by officers under delegated authority are recorded on the Council website. Checked from April 2016 to July 2017. Only one decision was found, 25/5/2017 relating to late night levy, taken by the chief executive. Our review indicated that reasons for the decision were clearly stated, including the basis of the advice from the Legal Service as well as the financial implications for the Council. The Decision was also appropriately approved by the CFO and the MO.</p> <p>The decision making processes for grants has been improved to address inappropriate award of grants and to demonstrate openness and transparency. The Grants Determination Sub-Committee chaired by the Mayor and the Grants Scrutiny sub-Committees have been established to ensure all decisions made by officers under delegated powers are reported at the Committee meeting following the exercise of such discretion.</p> <p>Although the Council is working towards an open and transparent culture, behaviours and practices are not yet fully supporting the Council's whistleblowing policy, for example the whistleblowing review, conducted by Grant Thornton identified that whilst 30% of the survey respondents confirmed that the Council is actively encouraging raising and discussing concerns openly, the stakeholder meetings and survey comments indicated that many do not consider this is the case.</p>	<p>Arrangements meet or exceed adequate standards</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> The governance arrangements for the transition from mainstream grants to commissioning are unclear and work should be undertaken to determine the scrutiny and decision-making procedures. 			

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B. Ensuring openness and comprehensive stakeholder engagement (cont'd)

Sub-principle	Summary findings	Rating	Direction of Travel
<p>B2.</p> <p>Engaging comprehensively with institutional stakeholders</p> <p>Page 128</p>	<p>The Council has engaged with Tower Hamlets Partnership to complete the 2015 Community Plan. Following production of the Community Plan, maintaining stakeholder engagement in monitoring delivery against priorities and partner engagement has been limited. We are aware that work is underway to reinvigorate the Tower Hamlets Partnership.</p> <p>The Council maintain regular dialogue with partners through the Health and Wellbeing Board and work is underway to improve its effectiveness.</p> <p>The Council has also developed a Voluntary and Community Strategy moving away from Mainstream grants and into co-commissioning. Engagement with the Voluntary and Community sector has included workshops, online surveys and focus groups. Member sessions on co-production have also been held.</p> <p>Children and Families Plan (2016-19) for example was a joint document developed by the Children and Families Partnership, covering representatives from the NHS, Met Police, Housing Providers, Educations and Third Sectors.</p> <p>Other Partnerships include:</p> <ul style="list-style-type: none"> - Tower Hamlets Together Board (provider side) - Mayor's Partnership Board (delegated powers to lead Member) - TH Joint Commissioning Partners (commissioners side) - System Partnership Board (integration agenda) <p>These partnerships have not been reviewed in detail as part of this review.</p> <p>Collaboration, however, is driven by statutory requirements and regulatory necessity. Engagement with institutional stakeholders as part of informal alliances should be improved</p>	<p style="text-align: center;">Potential risks and weaknesses</p>	<p style="text-align: center;"></p>
<p>Observations</p>			
<ul style="list-style-type: none"> • Collaboration is currently driven by statutory requirements; the Council should develop and improve its engagement with institutional stakeholders through strategic alliances and partnerships based on trust and shared priorities. • Refresh and update the terms of reference for the Tower Hamlets Partnership. 			

B. Ensuring openness and comprehensive stakeholder engagement (cont'd)


Sub-principle	Summary findings	Rating	Direction of Travel
<p>B3.</p> <p>Engaging stakeholders effectively, including individual citizens and service users</p> <p>Page 129</p>	<p>The Council demonstrates that it engages with stakeholders, but is not yet openly demonstrating changes resulting from these consultations.</p> <p>Strategic Plan explicitly links transparency to engaging more residents and community leaders in policy and budget changes, and also commits to a framework of borough wide equality forums, which contribute to the Council meeting its legal duty to promote equality. The 2015 Community Plan includes a cross-cutting priority of “empowering residents and building resilience”, with the aim of engaging them in actually designing and delivering public services. The Community Plan refers to engagement through Community Ward forums, lead by Community Champion Co-ordinators. The Council's web-site indicates that these have not met since 2015.</p> <p>The Council undertakes an annual residents survey, the last being in early 2016 and undertaken by independent market research company. It comprised face to face interviews with 1,100 residents. Website includes results for previous three years. The questions are tied to service priorities and form part of the Council's performance monitoring. The summary results identify trends from previous years .</p> <p>➤ Consultations</p> <p>Consultations have had variable success and take-up. The Council is currently consulting on the revised 2017-2020 Community Engagement Framework, which emphasises co-production and greater involvement of residents in shaping local services. The consultation process, however, is still focused on communicating with, rather than engagement of residents.</p> <p>We have seen evidence of effective consultation and especially effective scrutiny of the adequacy and extent of consultations. Adult's and Children's Directorates for example have developed a number of engagement mechanisms to reach out to diverse groups within the community. There were also cases where scrutiny bodies have returned proposals and requested wider consultation. In the area of care provision, consultations with service users however, have been mostly focussed on level of satisfaction with service provision rather than desired outcomes. Discussions around their needs and solutions on how to lead more independent lives are less advanced.</p> <p>The Council website does not include the outcome of consultations. For several of the consultations on the website, the opening and closing date were not provided. The background provided was also insufficient to give context to respondents. There have been several unsuccessful consultations processes (Late Night Levy), which have led to legal implications.</p> <p>The new Communication Strategy 2017/18 is mostly based on communities as recipients of information. There has been more focus on use of digital channels and campaigns to support Mayoral and Corporate priorities.</p> <p>Progress has been reported on e-petitions, however this website is still under development.</p> <p>Joint Strategic Needs Assessment is dated 2015 and not up to date; it does not contain evidence of extensive service user consultation.</p>	<p>Arrangements meet or exceed adequate standards</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> • The Council should move towards engaging rather than communicating with residents and service users. • The Council website should include the outcomes of consultations in addition to how consultation feeds into Council approach to policy and decision-making. 			

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits


Sub-principle	Summary findings	Rating	Direction of Travel
<p>C1. Defining outcomes</p>	<p>The Council’s vision and priorities are set out in the Community Plan and the Strategic Plan. Year Two of the Strategic Plan 2017/18 outlines the new strategic priorities and includes key performance measures.</p> <p>Strategic performance monitoring is also aligned with the key outcomes, with performance against strategic priorities and outcomes monitored quarterly. Outcomes as defined in the Strategic Plan are measured quarterly and reported to Cabinet every 6 months. Year-on-year trend (2013/14, 2015/16 and 2016/17) is also monitored. The outcomes and priorities within these documents were developed and agreed with the previous administration and elected mayor, as a result they may not fully reflect the strategic direction of the current administration. Work is underway to refresh the Community Plan and Strategic Plan and this should ensure the current administration collectively agrees the vision and supporting outcomes for the Council.</p> <p>The Strategic Plan has been used as a basis to develop the Directorate Service Plans, Team Plans and personal development plans. However, we have identified that although all these stages are required, they are not in place across the Council. Team plans are not in place with Adult Social Care and personal development plans are not in place within the Team. This limits the Council’s ability to define the outcomes at service level. The outcomes within the Service and Team Plans are often high level and are often not SMART, (specific, measurable, achievable, realistic and timely) The service delivery plans are viewed as an annual requirement and not as an effective long term, business planning process. The service plans appear to be driven by the resources available rather than the outcomes required.</p> <p>The Council has consulted key stakeholders on the Community and Strategic Plan, including using the results of the Annual Residents Survey 2016 to reflect and focus their priorities. However, we have seen limited evidence of how their proposals and changes will impact on citizens and service users.</p> <p>A positive development is the commitment across senior stakeholders to develop outcome-based performance and evidence-based policymaking. There have been a number of pilots across service lines.</p> <p>We have not seen evidence of how decision-makers consider competing demands in practice and further evidence is required.</p>	<p>Potential risks and weaknesses</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> • The Council should have Team Plans in place to support all Directorate Service Plans. • The Council should consider how it defines outcomes and ensure they are SMART, specific, measurable, achievable, realistic and timely. • The Council should document the impact that the agreed outcomes, together with the actions it plans to deliver these outcomes, will have on citizens and service users. This should be included within the Directorate Plans. 			

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C. Defining outcomes in terms of sustainable economic, social, and environmental benefits (cont'd)


Sub-principle	Summary findings	Rating	Direction of Travel
<p>C2. Sustainable economic, social and environmental benefits</p>	<p>➤ Sustainability of outcomes</p> <p>At a strategic level the Council agrees its budget annually, together the strategic priorities and outcomes which it aims to achieve. The Council is in the process of developing its approach to outcome based budgeting and planning.</p> <p>The Council has agreed a number of community outcomes as set out within the Strategic Plan and the Directorate Plans, but has not fully considered if they are sustainable in terms of the social, economic and environmental perspective. The Council has a range of strategies and plans to enable it to ensure its outcomes are sustainable, such as its capital strategy, revenue budget and its Equality Assessment/ Single Equality Framework. For example, the capital strategy sets out priorities and objectives for using capital resources in the context of rapid population growth but in an environment of reducing resources. However, its was last updated in February 2011 and may not reflect current socio-economic dynamics in the Borough.</p> <p>The Capital programme is also based on a corporate approach to the prioritisation of all capital resources, which is aligned to the Community and Strategic Plan priorities. However, a key issue is the way in which the capital programme is compiled. The funding source and Directorates plans have driven the approach, with Directorates producing the capital programme for Cabinet approval. Corporate Finance is responsible for refreshing the programme and for quarterly reporting to the Leadership Team and Council. Projects can be added in-year with delegated authority up to £250K. Projects between £250K and £1m need Cabinet approval while those over £1m require full Council approval. Financial Planning checks to ensure that projects can be delivered in terms of funding. At the year end the capital funding is allocated so there is assurance that capital expenditure is recorded accurately in the accounts. However there are a number of boards that deal with different aspects of the programme and approvals can be via these different Boards resulting in a lack of strategic development and oversight of the programme.</p> <p>Some of the priorities in the Borough Equality Assessment/ Single Equality Framework Action Plan for 2016/17 link to the Mayoral priorities and the Strategic Plan.</p> <p>All Council reports include a section on 'Sustainable Action for Greener Environment' (SAGE)</p> <p>➤ Social Value</p> <p>The Overview and Scrutiny Commission held a challenge session in March 2017, to review the existing commissioning and procurement approach to social value. The commission raised a number of recommendations and identified this as an area for improvement. The Council is not yet monitoring its performance with regard to social value, alongside the monitoring of other KPIs.</p> <p>Service Plans do not explicitly refer to Social value.</p>	<p>Potential risks and weaknesses</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> • Capital strategy requires updating to reflect changing socio-economic conditions in the Borough. • Consider amending existing processes for approval of capital expenditure. Introduce a central gateway process to ensure a consistent approach and to enable resource to be consistently aligned to the Council's strategic priorities. • Review and implement the recommendations raised by Overview and Scrutiny Committee with regard to Social Value within the commissioning and procurement process. 			

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Sub-principle	Summary findings	Rating	Direction of Travel
<p>D1.</p> <p>Determining interventions</p> <p>(Operational)</p>	<p>Most interventions during 2016/17 were driven by the need to comply with recommendations by Commissioners and Best Value directions. As at February 2017 all 205 actions in the Best Value Action Plan have been delivered with further implementation activity found in Tower Hamlets Best Value Improvement Plan 2017-18. These interventions were reactive in nature and required to bring governance arrangements up to standard. This has at times led to a proliferation of governance structures such as Cabinet and Advisory Boards. We have noticed some duplication with regard to the remit of some Boards and an unnecessary complication of reporting arrangements. However, the Council has also shown ambition in ensuring achievement of outcomes at the strategic level.</p> <p>The actions undertaken by services lack sufficient detail and focus on the outcomes, largely due to the outcomes being unclearly defined in the first place. This was identified within the Ofsted report and the indications are that Adult Social Care also lack clear KPIs to ensure appropriate interventions are undertaken. This is further compounded by the lack of team plans in some areas.</p> <p>For example, initial analysis within Adult Social Care indicate that funds focused on preventions are not delivering the required outcomes.</p> <p>For 2017/18 the budget has been aligned with the delivery of the corporate priorities and the supporting objectives. The Council's new Outcomes Based Budgeting approach is designed to look at different ways of delivering the required outcomes for less money. It focuses on service delivery rather than simple cost reductions through "salami slicing". However, the new process has not been applied consistently in 2016/17 and there are still large gaps in benchmarking data.</p>	<p>High Risk</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> • There needs to be greater synergy between the Best Value Improvement Plan Actions and other Action Plans such as the Governance Review Working Group Action Plan and the Constitution Action Plan to avoid duplication. • The 2016/17 Plan priorities (205) were largely met, however there is further work needed to confirm whether these have been embedded. • The Council has a range of strategies to assist it in delivering the necessary interventions, such as the MTFS, asset strategy and workforce strategy. The Council needs to ensure that the outcomes drive the interventions rather than the resources driving the outcomes. 			


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D. Determining the interventions necessary to optimise the achievement of the intended outcomes (cont'd)

Sub-principle	Summary findings	Rating	Direction of Travel
<p>D2.</p> <p>Planning interventions</p> <p>(Financial)</p>	<p>LBTH has prepared a medium term financial strategy with separate supporting appendices. The overall allocation of resources to meet priorities is reflected in the annual budget.</p> <p>In previous years resources have not been aligned to corporate priorities or clearly aligned with strategic objectives. There has been little pressure to reduce expenditure and where overspending has occurred it has been masked by the use of reserves. This has led to the development of a culture where financial management has not been subject to the same degree of rigor that we have found in other authorities.</p> <p>There is a need for greater synergy between the MTFS and supporting strategies particularly with regard to the integration with the workforce strategy and performance measures. Budgets, outcomes, activities and performance need to be aligned more closely with corporate objectives, although we noted improvements with the use of OBB. Corporate messages from CLT need to be translated throughout the whole of the organisation.</p> <p>For 2017/18 the picture has changed significantly and the Council has identified the need to find savings of £58m over the life of the Medium Term Financial Strategy (MTFS). For the first time the Council has introduced the concept of Outcomes Based Budgeting (OBB) in order to find the savings required. However, this process has not been applied with the same degree of effectiveness across the Council with some areas adopting a more traditional “salami slicing” approach to budget cuts.</p> <p>We have seen evidence that the Corporate Leadership Team (CLT) and the appropriate committees and Council monitor performance/budgets and challenge reports on these items quarterly. Our evidence suggests that detailed performance reports are presented to Cabinet or full Council.</p> <p>Finance staff have been heavily involved in this process although there is a view among finance staff interviewees that their input is too late and that decisions are made as a result of the financial imperative and not on the basis of a sound business case. This is perhaps the first significant challenge to budgets in recent years and we are concerned that budget holders are not working sufficiently closely with their Business Partners. Our concern here is that the responsibility for thorough analysis should be accepted by the operational areas; the areas need to demonstrate ownership of their budgets. Finance have the role of challenge, and of providing advice to Senior Management/Members for decision making purposes. However, Finance are not well positioned to assert their influence and persuade areas to own their budgets.</p>	<p>High Risk</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> • There is a need for greater synergy between the MTFS and supporting strategies particularly with regard to the integration with the workforce strategy and performance. • Budget managers need to accept ownership of and accountability for budgets. Sanctions for non-compliance should be introduced. There is a complacent attitude by managers with respect to finding budget cuts which needs to be addressed. The use of reserves to hide overspends should be stopped. Finance professionals should provide a more robust challenge to budget managers. 			


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D. Determining the interventions necessary to optimise the achievement of the intended outcomes (cont'd)


Sub-principle	Summary findings	Rating	Direction of Travel
<p>D3.</p> <p>Optimising achievement of intended outcomes</p> <p>(Operational)</p>	<p>In order to improve the standard of service within Adults, the Council has set up the Adult's Improvement Board.</p> <p>More broadly, within Adults' there have been wider interventions in terms of facilitating a move away from paternalistic service provision towards demand management and a community asset-based approach.</p> <p>Following the Ofsted inspection report, the Council also established the Children's Services Improvement Board. The Board – which includes external advisors, DfE Intervention advisor, Chief Officer of CCG, the Mayor and the Chief Executive - receive regular reports from the operational improvement group on progress against improving social work practice and outcomes for children. Its role was set to challenge the existing strategic governance, accountability framework, (including the Local Safeguarding Children Board, Health and Wellbeing Board, Children and Families Partnership, and relevant Overview and Scrutiny Committee(s)), and assess how they are contributing to overall improvement in outcomes for children.</p> <p>Although it is too early to tell if adequate scrutiny and challenge is being provided, there needs to be a lessons learnt exercise to determine why the previously existing Improvement and Inspection Board, chaired by an external consultant, failed to have an impact. The Ofsted report also mentions that senior leadership were not necessarily clear on whether certain interventions in children's lives have been effective.</p> <p>As discussed in C, failure to have outlined clear outcomes limits the Councils ability to identify, plan and deliver the necessary interventions.</p>	<p style="text-align: center;">High Risk</p>	<p style="text-align: center;"></p>
<p>Observations</p>			
<ul style="list-style-type: none"> • See previous recommendations relating to Directorate Service Plans and Team Plans. • The Council has accepted the recommendations made by Ofsted and an Improvement Board has been established and should continue to implement these recommendations. 			

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D. Determining the interventions necessary to optimise the achievement of the intended outcomes (cont'd)

Sub-principle	Summary findings	Rating	Direction of Travel
<p>D3. (cont'd)</p> <p>Optimising achievement of intended outcomes</p> <p>(Financial and Resources management)</p> <p>Page 135</p>	<p>For 2017/18 a different approach has been adopted in that the Council has introduced a system of OBB linking budgets to service outcomes rather than setting an incremental target, although change is not yet fully embedded across the Council.</p> <p>This is being hindered by all the issues around the restructuring of finance and by cumbersome systems.</p> <ul style="list-style-type: none"> • There is a feeling that budgets are still driven by the centre • There is still a push to cap budgets rather than look at need • A lack of profiling means that a disproportionate amount of capital expenditure occurs in month 12 with significant slippage in future years • There is insufficient time and skills to look in detail at business cases • Initial profiling is very inaccurate and it is all done within the directorates. Corporate finance take the figures as given without any real challenge. <p>With regard to capital it is the responsibility of project managers to re-profile budgets but they do not do this rigorously. Directorates have cash to spend but do not spend it in line with the budget due to the lack of profiling i.e. all expenditure on a project is allocated to year 1 even though a project is spread over more than one year.</p> <p>To some extent the degree of success has depended on the skills and experience of the Business Partners in each business area. The Business partner model is not working here and there is no challenge. As a result, all expenditure tends to be dropped into year one. Although Financial Planning tries to adopt a challenging role and the section has issued instructions about the need to re-profile over more than one year. However, there is a lack of buy-in amongst Capital Programme Heads in the directorates and there is a need to change the culture here. In effect the Asset Management Working Group needs to exert more control. Project Managers sit on this group but they do not challenge each other. There needs to be much more of a corporate approach rather than each directorate operating in silos as they do currently.</p> <p>The revised Procurement Strategy for 2016 – 2019 reflects the Council’s current approach and considers how it will move towards outcome based commissioning. This is a positive approach and reflects how the Council is beginning to move towards a more outcome focused approach.</p>	<p>Potential risks and weaknesses</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> • We recommend the need for strong, visible strategic leadership from the centre with greater corporate standards setting. There is also a need for a much stronger leadership role for finance staff in operational directorates. This will lead to improved visibility for the finance function. We also recommend that this should be supported by a clear finance function service plan including agreed performance targets. The fact that the finance function is currently perceived as lacking in drive/energy, that it is overly bureaucratic and not structured to drive transformational change needs to be addressed. • The Council should continue to implement the recommendations set out with the report - Review of financial management using the CIPFA Financial Management Model. 			

E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it

Sub-principle	Summary findings	Rating	Direction of Travel
<p>E1. Developing the entity’s capacity</p> <p>(Financial management)</p> <p>Page 136</p>	<p>The Council lacks capacity and capabilities within its support service, finance and performance, to both monitor performance effectively, act on recommendations, and provide resources. A restructuring process is underway within the Resources Directorate and should address the current staff capability and capacity issues. Prior to this a number of interim staff have been employed or seconded to the Council.</p> <p>We also note that senior operational management capacity is lacking to implement and embed the new policies and procedures adopted. Some key posts were occupied by interim staff, often responsible for areas to do with transformation and ensuring sustainability of outcomes. This lack of continuity is detrimental to ensuring sustainable outcomes. Although the Council has adopted a Workforce Strategy 2016-2021, this does not provide a comprehensive continuity and workforce planning. The timeframes adopted seem to lack a sense of urgency – for example review of induction for new starters, senior manager salaries and job evaluation schemes are scheduled for 2018/19 while creating a workforce skills matrix to identify skills gaps is scheduled to happen in 2020/21. The design of knowledge transfer and succession planning is also scheduled for 2018/19.</p> <p>The newly appointed Director of HR has also introduced her own vision based on several pillars including Conduct, Performance, Wellbeing and Engagement, Change, Skills, Employer of Choice, and Equality. These need to be embedded without further delay due to the existence of several contradicting HR Guidance documents.</p> <p>A quarterly Corporate Budget Monitoring Report prepared by the Chief Accountant is presented to the CMT and to the Cabinet by the Corporate Director for Resources. The Lead Member for Resources takes a personal interest in this report. These reports provide information which is beneficial to the Council. However, this is undermined by the timeliness of these reports. The reports are issued up to three months after the period end, reports appear too late for senior officers or members to take remedial action or to reallocate resources. The report covers:</p> <ul style="list-style-type: none"> • General Fund Revenue and HRA • General Fund and HRA Capital Programme • Key balance sheet information. <p>LBTH has a Corporate Research Unit which is responsible for the Annual Residents Survey, the Census data, population, socio-economic research, Joint Strategic Needs Assessment. It is however not clear how the research function supports Directorates and Service Plans in the achievement of annual Strategic Plan Priorities and Community Plan Priorities since most of the outputs we have seen date back to 2013/14. The JSNA has not been updated since 2015.</p> <p>Use of benchmarking across the organisation to improve decision-making has been limited. One of the major barriers to the implementation of OBB in 2017/18 have been gaps in benchmarking data.</p>	<p style="text-align: center;">High Risk</p>	<p style="text-align: center;"></p>
<p>Observations</p>			
<ul style="list-style-type: none"> • The Council should improve the capacity and capabilities within its support service, finance and performance. • The Council should consider how it can mitigate the impact of interim senior management posts. • Workforce Strategy should be updated with more realistic milestones and measurable performance indicators to monitor progress. • Extend the use of benchmarking of performance and financial information by Officers across the Council. 			


E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it (cont’d)

Sub-principle	Summary findings	Rating	Direction of Travel
<p>E2. Developing the capability of the entity’s leadership and other individuals</p>	<p>The Council is going through a period of significant change with the majority of Corporate Directors and Senior Management being relatively new to their post. These changes are on the back of governance failings and as a result structural and leadership changes being made.</p> <p>➤ Governance Structure</p> <p>As discussed in D1, the Council has introduced a range of committees and working groups to address identified weakness. These are illustrated in appendix B. However, this structure increases the risk of duplication and has also created an inflexible structure where delegated decision making is difficult. Senior operational management are sometimes frustrated by the lack of discretion exercised – there is a tendency towards micromanagement rather than strategic management. At the senior operational manager level, it was felt that the lack of a sense of direction and shared purpose was overcompensated through the use of unnecessary checking mechanisms – for example, there was a lack of trust for middle management to handle Member enquiries, complaints or members of the public, requiring authorisation from the Divisional Director. This was deemed time-consuming and distracting from setting a longer-term, transformative agenda.</p> <p>The Ofsted report also referred to the lack of effectiveness of senior managers in challenging the entrenched culture of non-compliance. This is being addressed through the Children’s Improvement Board and a number of actions in the area of Organisational Culture as part of the Best Value Improvement Plan.</p> <p>We heard from some interviewees that CLT members did not always act as critical friends to each other. The explanation offered was partially cultural and partially that some CLT members were new into post. Therefore, usual debates and 'soft' challenge through discussion of issues/reports being considered by CLT did not always get cross departmental input at the right time for decision making.</p> <p>A 'TOWER' Manager development programme is underway to determine the main barriers (both in terms of procedures and behaviours) middle management face to improving performance. The Learning and Development Policy, however, is out-of-date; it was last updated in May 2013. There is also a clearly set process for performance appraisal. Performance and development reviews occur annually; there is also a mid-year review and end-of-year review. The Guide to the Corporate Performance, Development and Review Scheme was revised in April 2017.</p> <p>Completion of a Declaration of Interest is included as a requirement in the PDP (Personal Development Plan). The majority of employees use the HR Self-service platform to complete their annual performance appraisal. Not all PDRs are completed annually, however.</p> <p>Establishment control is also an issue as outlined in the latest Internal Audit Report.</p> <p>➤ Political Leader - Members</p> <p>As per the Best Value Improvement Plan, LBTH is in the process of developing a Member-Member and a Member-Officer Protocol. Support to Members to date has not been up-to date. The Member Intranet contains induction material which have not been updated since 2014. The Member training slides also contain outdated information on the Constitution and the Scheme of Delegation. There is no information on Member conduct. The Members' Intranet also references LGA's Councillors' Guide which has not been updated since 2013.</p>	<p style="text-align: center;">High Risk</p>	<p style="text-align: center;"></p>

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it (cont'd)

Sub-principle	Summary findings
Observations	<ul style="list-style-type: none">• Review existing governance structures to remove duplication.• CLT to be able to hold each other to account as supportive critical friends.• Update Member induction and development materials so that they have relevant information and tools to support them in their various roles.

F. Managing risks and performance through robust internal control and strong public financial management

Sub-principle	Summary findings	Rating	Direction of Travel
F1. Managing Risk	<p>➤ Risk management: Business as Usual CIPFA Benchmarking results for the Council show that risk management is 'working' but not yet embedded at the leadership and people level as well as in partnerships. Risk Champions fulfil their roles with varying degrees of success but do not have a prominent profile in the organisation. The Council has a Risk Management Policy Statement and a Risk Register. However, the organisation has been risk averse in the past, and the current process remain 'tick box' in nature and not dynamic.</p> <p>There is a poor record of compliance with embedding risk management within operational practice; compliance requires improvement. The use of the JCAD system is not as robust, with Internal Audit continuously reporting lack of regular review, sharing and updating of risks and control measures by risk and control owners, indicating the need for a behavioural change. As per the Head of Internal Audit 2016/17 Report, there are currently 367 active risks on the Council's Risk Management Information Systems (JCAD), of which 105 are overdue for review. There are also 332 active control measures on JCAD of which 141 are also overdue for review.</p> <p>In their 2016/17 Report Head of Audit reported that for 2016/17 as a whole, 69% of priority 1 recommendations had been implemented against a target of 100%, and 53% of priority 2 recommendations had been implemented against a target of 95%. This is a relatively low compliance. Our stakeholder interviews confirmed that most directorates do not have a mechanism of tracking and auctioning audit recommendations.</p> <p>➤ Risk Management Training Risk Management and Anti fraud awareness session is also included as standard training for Members within the Member Development Programme.</p> <p>In order to raise awareness of risk, the Head of Audit and Risk has initiated a series of risk talks. Risk talks are regular, usually monthly, lunch and learn sessions, aimed at improving practical awareness of risk management through the use of case studies, research, sharing best practice and updates all highlighting the importance and benefits of managing risk. The talks are advertised on the THnet as well as targeted invitations being sent to officers. There is usually a mixed audience of senior managers, managers and staff. If these talks were made mandatory attendance and awareness could increase.</p>	<p>Potential risks and weaknesses</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> • Improve compliance with RM system. • Ensure that 'risk talks' are mandatory for officers working in, and or, responsible for areas of high risk. 			

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F. Managing risks and performance through robust internal control and strong public financial management (cont'd)

Sub-principle	Summary findings	Rating	Direction of Travel
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 140</p> <p>F2. Managing Performance</p>	<p>Performance management is seen as an area for improvement due to the lack of high quality performance data and outdated systems, on the one hand, but also due to the lack of adequate budget and performance reporting culture. The Council has taken significant steps in addressing the former through the use of a new performance management system – Covalent – which is aimed at aligning spend and performance monitoring.</p> <p>➤ Managing Financial Performance For example, there is a lack of accurate profiling of capital expenditure with the result that budgets are always showing as underspent. The Capital programme for the year was set at £170.4m of which only £25.45m or 15% had been spent as at the end of period 6. This highlights a major problem with the way in which the Capital programme is set.</p> <p>Particular areas of concern that we noted cover the following:</p> <ul style="list-style-type: none"> • Monthly forecasting returns are not taken seriously by budget managers. It is often left to finance to do the returns • There is an attitude of complacency brought about by the easy availability of money in the past. The new budget cuts are starting to have an impact but it is early days so far. This has led to Business Cases not being very robust around benefits and savings • If managers fail to comply with financial requirements there is no sanction against them by senior managers. We found one exception but this seems to be a general problem • There is an attitude that “if it has a £ sign then it is finance’s responsibility” • There is a feeling that there is a lack of direction and leadership on financial issues both from the service directors and from the corporate centre • There is a lack of “buy-in” on financial management from budget holders • The overall view is that there is a lack of accountability for financial matters in general and budgetary control in particular <p>➤ Managing Operational Performance and Service Improvement. Scrutiny of performance Only limited steps have been taken to assess service quality and costs. Although Finance is a member of the CIPFA Benchmarking Club the reports that we have seen do not contain all the information required to carry out an assessment of the cost and effectiveness of the function. This suggest that, although the Council is paying for the service it is not making good use of the information potentially available.</p> <p>Alongside issues around data accuracy and recording in Adult’s and Children’s, monitoring performance against outcomes was seen as ineffective due to the focus on a narrow set of quantitative KPIs. The performance dataset needs to be broader to measure impact on service users. We have also identified a lack of integrated performance reporting, linking financial and operational performance. This has an impact on Members and management and relies on them having to make the link.</p> <p>Performance reporting is also not effectively used for service improvement. Members still require support with using performance reports to exercise effective scrutiny. Performance scrutiny is also not using all of its available instruments, as evidenced by few if any call-ins. However, this could be balanced with scrutiny Members being supported to carry out pre-decision scrutiny.</p>	<p style="text-align: center; color: white; font-weight: bold;">High Risk</p>	<p style="text-align: center; color: blue; font-size: 2em;">↑</p>

F. Managing risks and performance through robust internal control and strong public financial management (cont'd)


Sub-principle	Summary findings	Rating
Observations	<ul style="list-style-type: none"> Managers require a much clearer understanding of how to achieve Value for Money. Training is required to increase their understanding and achieve greater consistency. We recommend that managers should be more closely involved in the submission of benchmarking data. Finance input to business cases needs to be on a timely basis in order to be able to influence decision making. We recommend that a cohesive financial performance and competency framework should be established. This needs to address the current variable financial management and system skills of managers. Managers require training in their role in financial accountability as it is not currently well understood. Equally finance staff need to adopt a much more challenging approach in their work with budget managers. Introduce integrated reporting, finance and performance information. 	

F. Managing risks and performance through robust internal control and strong public financial management (cont'd)


Sub-principle	Summary findings	Rating	Direction of Travel
<p>F3. Robust internal control</p>	<p>LBTH has Financial Regulations and Standing Orders that document and define controls and procedures. By encompassing areas such as LBTH's responsibilities for collaborative/partnership arrangements, Finance Regulations follow good practice. Overall the Financial Regulations appear to be comprehensive and in line with best practice arrangements.</p> <p>Evidence in support of a strong internal control environment is provided by the annual audit letter from External Audit for 2014/15 which was free of weaknesses in the operation of internal controls. We only had access to the 2014/15 letter at the time of review as the letter for 2015/16 and the audit opinion has been delayed due to the VFM qualification issues. However, we met with the external audit partner and he was able to provide an assurance that there was no material issue with the financial statements. He also referred to the general quality of working papers and of the ability of the Council's finance staff to deal with audit queries.</p> <p>The internal audit function is led by an experienced Head of Audit and Risk Management. He produces an annual plan that is designed to cover all the key financial systems each year. There is a comprehensive Internal Audit Plan in place for 2016/17 and this was provided for our review. The plan was reported to the Audit Committee by the Corporate Director of Resources on 22 March 2016. The plan is risk based and it starts by addressing the 11 corporate risks identified by the Council. The plan sits within an overall Internal Audit Strategy that was approved by the Audit Committee in 2010. In terms of resources the plan provides for just over 1500 audit days comprising 4 internal staff plus management supplemented by a team from Mazars which is procured under a framework agreement with the LB of Croydon.</p> <p>The Head of Audit and Risk Management provides an annual internal audit opinion in accordance with the Public Sector Internal Audit Standards. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended). This report is submitted for approval to the Audit Committee and we reviewed the report for 2015/16 submitted on 28 June 2016.</p> <p>The report concludes that the Council has an adequate system of internal control which was in operation throughout 2015/16. The report is comprehensive and covers:</p> <ul style="list-style-type: none"> • Opinion and basis of opinion • Summary of audit work undertaken in 2015/16 • Audit Charter and Internal Audit Strategy, setting out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards • Appendices covering Audit Resources, Summaries of reports not previously reported Summaries of all audit reports are submitted to the CMT and Audit Committee, Follow Up Audits, List of planned audits undertaken in 2015/16, Summary Head of Audit Opinion, Detailed Head of Audit Opinion, Benchmarking club/headline. 	<p>Arrangements meet or exceed adequate standards</p>	

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F. Managing risks and performance through robust internal control and strong public financial management (cont'd)


Sub-principle	Summary findings	Rating	Direction of Travel
F4. Managing Data	<p>The Council has a range of policies that set out its approach to managing data and data quality, including its Information Governance Framework.</p> <p>The Data protection policy requires that appropriate technical and organisational measures are in place with third parties to protect against the unauthorised or unlawful processing of the personal data and against the accidental loss or destruction. The Information handling Procedure also sets out the requirements of third parties.</p> <p>The Council has two main Information Sharing Protocols in place:</p> <ul style="list-style-type: none"> • The Crime and Disorder Protocol. • The North East London Health and Social Care Information Sharing Protocol <p>However, the Data Quality Policy states that it is updated annually, the latest version we received was dated 2014. We have no evidence of any review of data quality and understand that this would be the responsibility of individual directorates. The 2017/18 Internal Audit Plan does not contain review of data quality.</p> <p>The Ofsted review identified that leadership were reliant on inaccurate information.</p> <p>The Council has an Information Governance Group and an Information Governance Board. This group is chaired by the Head of Legal Services and includes representative from across the Directorates. It is an operational group and report to the Information Governance Board. The Board report to CLT and Cabinet on an annual basis.</p> <p>Mandatory training is required for Information Governance, the Council has difficulty in ensuring the training is completed and monitoring compliance. This is due to the inadequacy of the system currently in use. The Council will be rolling out training for all employees covering the requirements of the General Data Protection Regulation (GDPR).</p>	Potential risks and weaknesses	
Observations			
<ul style="list-style-type: none"> • The Data Quality Policy should be reviewed annually, last updated 2014. • The Council should ensure that it reviews and audits the quality and accuracy of data used in decision making and performance monitoring on a regular basis. 			

F. Managing risks and performance through robust internal control and strong public financial management (cont'd)


Sub-principle	Summary findings	Rating	Direction of Travel
F5. Strong public financial management	<p>Our review of financial management identified the following areas which need to be addressed as a matter of priority:</p> <ul style="list-style-type: none"> • Ownership and accountability for financial performance: absence of ownership and accountability for budgets – concealment of overspends through the use of reserves • Strategic structure: need for strong, visible strategic leadership – finance staff in operational directorates need more leadership and direction from both the corporate finance team and from service directors • FM Competency Framework and performance framework: no cohesive framework in place - variable financial management and system skills of managers – accountability not well understood – finance challenge requires greater depth • Business Partnering: lacks effectiveness; accountants not universally perceived as up to this role – commercial skills gap – soft skills require honing – need to build understanding of expectations of managers and demonstrate delivery of service – need for more individual agility to drive transformation • Value for Money approach: not well understood or consistently applied – there is a tendency to proceed with projects before finance staff have had a real input to the decision making process • Finance Function positioning and service planning: needs greater visibility – need for a clear finance function service plan including service agreed performance targets - perceived absence of energy/drive for efficiency – viewed as bureaucratic - divided and not structured to drive transformational change – not a lot of resilience. • Financial Management Information Systems: self-service systems do not work well for budget managers - data needs manual manipulation - managers require handholding by finance restricting latter's ability to add value – information not trusted – resource inefficient -need clarity on future user needs – significant investment required • Financial Transaction Systems: major problems with systems around coding errors, incorrect journals and maintenance of the workflow – requires manual intervention and leads to a waste of finance staff time 	High Risk	
Observations			
<ul style="list-style-type: none"> • There is a need to address the current absence of understanding of detailed activity costs through training on financial systems especially the GL. We recommend that measures should be introduced to prevent the circumvention of the “compulsory” e-learning modules. We also recommend that job descriptions, currently regarded as out of date, should be redrafted. The weaknesses in the governance approach on capital projects should also be addressed in order to prevent slippage . With regard to the role of the business partners we recommend that their role should be made more effective by training in commercial awareness, through the honing of the "soft skills" needed to build understanding of expectations of managers and demonstrate delivery of service. Business partners should also be encouraged to help to drive transformation by sitting on DMTs. • We recommend that the current self-service budget reporting tools should be revised and improved. In particular the need for the manual manipulation of data should be greatly reduced so that finance professionals can concentrate on providing advice and input to the decision making process. We also recommend that there should be a strict application of corporate standards with an emphasis on end-user needs. We appreciate that this will require significant investment but we believe that the investment will be repaid in the short term through greater value for money. • We also found that the financial transactions systems are in need of urgent improvement. In particular we recommend that steps are taken to reduce the high level of coding errors in the GL, that the automated invoice matching process should be improved to reduce the level of duplicate payments and that the high level of inaccuracy in journal posting in the GL workflow system should be addressed. This latter problem makes the GL cumbersome to maintain due to the high level of manual intervention that is required 			

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G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Sub-principle	Summary findings	Rating	Direction of Travel
G1. Good practices in transparency	<p>The Council is committed to openness and transparency as set out in its values.</p> <p>Information is available on the Council website and committee papers are published as required. The section on Decision-making also excludes information on Key Mayoral decisions. It may be of benefit to include extracts from the Constitution defining Key Decisions and their use.</p> <p>See section A for further information on openness and transparency.</p>	Arrangements meet or exceed adequate standards	

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability (cont'd)

Sub-principle	Summary findings	Rating	Direction of Travel
<p>G2. Good practices in reporting</p> <p>Page 146</p>	<p>The financial accounts and statements for LBTH are produced in accordance with statutory deadlines but there have been delays in signing and publication due to the VFM qualifications which started in 2013/14 and which resulted in the appointment of Commissioners. As a consequence of this history the Annual Governance Statement for 2015/16 was only presented to the Audit Committee on 20 September 2016 so that it could be approved for signing by the Chief Executive Officer and the Mayor by the statutory deadline of 30 September 2016.</p> <p>Like many public sector annual reports and accounts, these documents are heavy to read for most individuals outside the officers of the organisation. LBTH's report explains the operational and financial performance using 'plain English', and as far as we can tell is transparent in its narrative and data presentation. Our contributors generally agree that the presentation of the summary accounts is intelligible and accessible to the non-expert user.</p> <p>The Council is provided with a consolidated view of the organisations finances and risks.</p> <p>We have reviewed the draft Annual Report and Accounts for 2015-16 and they conform to sector requirements, and include the AGS which is signed by the Chief Executive. The Annual Accounts were subject to a Value for Money qualification in 2013/14 and again in 2014/15. The external auditor's management letter is considered at appropriate levels within the Council and appropriate action has been taken to resolve the VFM issues working in conjunction with government appointed Commissioners. The external audit letter for 2014/15 raises no significant issues in relation to financial accounting and the external auditors confirmed subsequently that there have been no significant issues in relation to the accounts. We understand that the Council is on track for 2016/17.</p> <p>There is also an issue with regard to the timeliness of reporting. The budget monitoring report for period 6 was not seen by the Cabinet until the middle of December 2016. As a result the reports appear too late for senior officers or Members to take remedial action or to reallocate resources. The timeliness of reporting is of major concern to Members, including scrutiny and should be addressed urgently. Otherwise the report provides a useful report to the CMT and Members. More detailed, monthly monitoring reports are also provided to budget holders and Directorate Management Teams and, again, we will refer to these under the Processes section of our report. Performance reports throughout the year are also not reported on a timely basis, being reported at least three months after the period end.</p> <p>There was concern that reporting to Commissioners and in the business-as-usual process is a demanding process and takes up significant management time and resource.</p>	<p>Potential risks and weaknesses</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> The Council should improve the decision making section of the website. Currently Mayoral and Commissioner decision-making are not explained and are in a separate section of the Website (see link: http://democracy.towerhamlets.gov.uk/uuCoverPage.aspx?bcr=1). The section on 'How the Council makes decisions' contains outdated information. The timeliness of reporting should be improved. This can be achieved in conjunction with a range of other recommendations we have made in terms of the review process (See A3, p.16). 			

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability (cont'd)

Sub-principle	Summary findings	Rating	Direction of Travel
<p>G3. Assurance and effective accountability</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 147</p>	<p>The Audit Committee receives and monitors the implementation of internal and external audit recommendations. The Committee and Council also receive the external auditor's annual letter for consideration of any recommendations.</p> <p>The Council's Corporate Governance Framework is embodied in the document the "Guide to Our Core Values and Corporate Leadership and Management Framework." This sets out the Core Values of the Council and what it expects of its staff. A large part of the document is about management development and how staff will be trained, developed and appraised. In addition there is a comprehensive set of Financial Standards and Regulations running to over 100 pages covering Financial Regulations and Financial Procedures.</p> <p>In terms of structure there is a clearly defined committee structure with an Overview and Scrutiny Committee supported by a number of sub-committees, although we have raised concerns about the complexity of the structure. There is an Audit Committee which considers reports from both internal and external audit and also considers risks to the Council. The Council produces an Annual Governance Statement and we have seen the draft Annual Governance Statement 2015/16 drafted by the Corporate Director of Resources which went to the Audit Committee on 20 September 2016. This was an urgent item in order to meet the statutory deadline of 30 September for sign off by the CEO and the Mayor. The 2014/15 AGS raised thirteen significant governance issues. The current status of these issues is shown in the report. The Assurance Control Checklist is an appendix to the report and provides a wholly positive answer to the questions of governance. In our view it appears to comply with the Accounts and Audit Regulations and the example seen was positive in its conclusion.</p> <p>We see a potential risk that by placing undue emphasis on discussions with external stakeholders senior management is raising expectations before achieving necessary improvements to internal quality of data/information, processes and delivery mechanisms. This latter statement is highlighted by the Council's lack of published transparent plans for achieving Value for Money with targets and indicators, and reports of outcomes from those plans clearly demonstrating a holistic view to application of public funds. Until 2017/18 very little use had been made of benchmarking and comparative data. This is beginning to change but our sense from the interviews is that there is still some way to go.</p> <p>In addition, the Council had a Value for Money qualification on its accounts for 2013/14 leading to the appointment of external Commissioners, by the government. This led to further qualifications in subsequent years. Although steps have been taken to rectify these issues the accounts for 2015/16 had not been signed at the time of our review. The Annual Governance Statement in the Annual Report sets out the steps that the Council is taking to address these issues. The Annual Report also has a brief description about how the Council achieves Value for Money but it is very brief.</p> <p>A number of strategies are published which explain how relating activities can be directed to achieve Value for Money savings e.g. Procurement Strategy and Asset Management Plan. These documents are helpful to the readers but overall what is needed to demonstrate Value for Money is a corporate view linking all the plans/strategies together with specific objectives and finances i.e. Integrated Reporting, a holistic approach report that can be used to identify synergies from the relationships between different parts of the organisation and different activities.</p>	<p>Potential risks and weaknesses</p>	
<p>Observations</p>			
<ul style="list-style-type: none"> • The Council should consider extending the scope for VfM reporting. • More timely reporting to Cabinet, Audit Committee, Overview and Scrutiny Committee and its sub committees. 			

Significant Governance Issues (2015/16 AGS) and Improvement Issues 2017/18

Significant Governance Issues (2015/16 AGS) and Improvement Issues 2017/18

The following reflects the position as at July 2017

Issue	Best Value Improvement Plan Progress	2017/18 Planned Improvements
<p>Payments to third sector organisations outside of the main grant process</p>	<p>All actions in the Grants Best Value Improvement Plan have been delivered.</p> <p>The Council produced the Voluntary and Community Sector Strategy and is now in year 2 out of 3. VCS has an action plan with 46 actions. A key part of this is the move from MSG to commissioning. This is monitored and reviewed on a quarterly basis, involving key stakeholders.</p> <p>Member sessions have been held on co-production.</p>	<p>During 2017-18 the priority is progressing the community grants team restructure and delivering the pilot co-commissioning of the Community Cohesion theme of the current Mainstream Grants programme.</p> <p>The new structure of the team will ensure transparency over arrangements and separation of duties. The Corporate Strategy team will pick up the strategic aspect, while the Third Sector team will be responsible solely for the evaluation, monitoring, and administration of grants. This ensures no conflict of interest as grant award will be with the Strategy team. There will be separation of:</p>
<p>A comprehensive review of the management arrangements for the control and monitoring of grants</p>	<p>Two sub committees were established to improve transparency and cross party working. Grants Determination is a Sub-Committee of Cabinet, chaired by the Mayor with Commissioner attending. It is involved in all aspects of grant award. The Grants Scrutiny Committee is chaired by the opposition (Conservatives) a sign of more mature decision-making among politicians.</p> <p>A new ICT system- GIFTS – was introduced to enable openness and transparency externally, and improved access to information for Members to ensure better scrutiny. Under the previous system, only recorded mainstream grants; the new system will cover all grants to ensure transparency.</p>	<ol style="list-style-type: none"> 1. Monitoring – process will better capture information on beneficiaries (ethnicity, residence status). There will be focused Monitoring Officers 2. Payments – in the past, there payments were made without authorisation and premises used without permission. Better system of checks and balances to be implemented. External consultant will be reviewing the process. 3. Assurance <p>Theme 5 (Community Cohesion) has been out to tender and piloted using the new commissioning approach as opposed to grants. Feedback to approach has been positive. Key focus is on creating capacity among smaller organisations to effectively participate in the commissioning process; offering training and upskilling. Most of the contracts in the Pilot were won by smaller, local providers – shows there is no bias towards bigger organisations</p>

Significant Governance Issues (2015/16 AGS) and Improvement Issues 2017/18

The following reflects the position as at July 2017

Issue	Best Value Improvement Plan Progress (Final Update report)	2017/18 Planned Improvements
<p>3. Publicity Expenditure Controls</p>	<p>Outstanding actions based on Commissioner recommendations have been resolved, including:</p> <ul style="list-style-type: none"> - the Communications and Marketing Service restructure was completed in January 2017 - the cost of publications such as Our East End has been determined and reliance on publications reduced - The future of Statutory Public Notices has been resolved following legal advice. In order to secure better value for money, the Council will buy the notices through a media buying company. A procurement process has been started. 	<p>The focus for 2017/18 will be to ensure effective delivery of communications campaigns and changing the media culture within the Council.</p> <p>LGA did an independent review of Communications Plan in 2015 It is acknowledged within and outside the organisation that the historic and on-going focus of communications has been on reacting to media issues and producing East End Life.</p> <p>A centralised the Communications Service so it is at the heart of the Council's strategic approach. The Council's reliance on East End Life in previous years has led to other areas of communications and marketing being underdeveloped. The Communications Service is moving away from reliance on publications and towards a campaign model to support Mayoral and Community Plan priorities.</p> <p>Development and agreement of a Communications Strategy for 2017-18 will further develop communication channels and targeting of information to internal and external audience.</p>
<p>4. Strengthen controls over disposal of assets that demonstrate best value is secured by the Council</p>	<p>A carefully managed programme of disposals was carried out in 2016/17. This was carefully scrutinised by Commissioners and resulted in the generation of significant capital receipts for the Council.</p> <p>The Council will continue to audit the tenancies and occupancy of its property portfolio especially in relation to organisations in receipt of mainstream grants.</p>	<p>A key focus for 2017/18 will be to develop community hubs as part of the Community Building Policy.</p> <p>Stakeholder interviews indicated that there needs to be better coordination between the Asset Strategy 2015-2020, the Capital Strategy and the MTFS. Property decisions are currently driven by a short-term focus on savings within services rather than strategic vision of how assets can support improvements in service provision.</p> <p>A key challenge for the Council in the short-term will be the delivery of a new Civic Centre.</p>

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Significant Governance Issues (2015/16 AGS) and Improvement Issues 2017/18

The following reflects the position as at July 2017

Issue	Best Value Improvement Plan Progress (Final Update report)	2017/18 Planned Improvements
5. Elections	<p>Since 2015 Tower Hamlets has successfully held four elections which include: an EU referendum, a GLA election for the Assembly and Mayor of London, the Whitechapel by-election and a General election.</p> <p>All statutory deadlines were met and no substantive incidents or complaints were received. There have not been any petitions.</p>	<p>The Council has discontinued its participation in the Pilot ID Project, which needs to be reflected in its Best Value Improvement Plan for 2017/18.</p> <p>This should be revisited and further actions taken to ensure good practices in registration of the population are implemented.</p>
6. Organisational Culture	<p>In September 2016 the Council launched an independent Clear-Up Project to deal with any remaining allegations of impropriety and serious concern. Recommendations have started to be implemented and will be reported to Cabinet in June 2017. Following the Mayor's commitment to openness and transparency, the Council also commissioned an independent external review of the whistleblowing arrangements introduced earlier in 2016.</p> <p>Review of the Constitution and Governance arrangements is also being led by the cross-party Governance Review Working Group and the Constitutional Working Group. The GRWP has considered the findings resulting in more dialogue between Councillors and a better understanding of the key issues.</p>	<p>The focus in 2017/18 will be working with staff to refresh and embed the new staff values and rebuilding trust.</p> <p>Key areas of focus for the next year will be:</p> <ul style="list-style-type: none"> • Refresh of constitution • Implementation of Clear Up Project recommendations • Implementation of independent Whistleblowing Policy review recommendations • Implementation of Children's Services Improvement Plan following Ofsted's inspection • Analysis of Annual Residents Survey • Development of Tower Hamlets Partnership and a revised Community Plan • Updated Planning code of conduct, Member/Officer protocol and new Member/Member protocol

Appendix A – Roles and responsibilities within the governance structure

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Governance Framework

Member Committees

Council

The Council is composed of a Mayor and 45 Councillors. They are responsible for those decisions and functions that cannot be made by the Mayor, such as approval of annual budget and appointment of the Head of paid Services.

Elected Mayor

The Council has adopted an elected Mayoral form of Executive. The Executive is democratically accountable to residents of the borough.

Cabinet

The Mayor appoints Executive Members and together form the Cabinet. The Mayor and Cabinet are the main decision making body within the Council, other than where a decision should be taken by the full Council or has been delegated to a sub-committee or to a Senior Officer as part of their executive functions.

Infrastructure Delivery Board

This board includes Members and officers and is a decision making board. Decisions are made in relation to the CIL and Section 106 monies.

Grants Determination Sub-Committee

This sub-committee was established as part of the actions relating to the Best Value Improvement Plan. Its Membership includes the Mayor plus three other Executive Members. Its role is to determine the grants to be awarded by the Council.

Overview and Scrutiny

A range of scrutiny committees have been established to fulfil the scrutiny function. The Overview and Scrutiny Committee responsibilities include review and scrutinise the

decisions of the Executive.. This Committee support the work of the Executive and the Council as a whole. It also has a strategic and co-ordinating role over the scrutiny function and also monitors the decisions of the Mayor and Executive.

Grants Scrutiny Sub-Committee

This committee is a sub-committee of the Overview and Scrutiny Committee

The Overview & Scrutiny Grants Sub-Committee will discharge the Council's statutory functions to undertake overview and scrutiny, insofar as these pertain to grants matters.

Mayor's Advisory Board

This is not a decision making group and operates as an advisory meeting and includes the Mayor and Cabinet. This meeting is attended by Members of CLT. It is not a public meeting.

Best Value Improvement Board

The BVIB was established in April 2017 and monitors performance against the Best Value Improvement Plan. It includes the Mayor, Cabinet and the Chief Executive and an independent Member the Mayor of Lewisham.

Governance Framework (cont'd)

Corporate Leadership Team (CLT)

CLT consists of the Chief Executive and the five Corporate Directors. They are authorised to make decisions relating to any executive function carried out by services under their management other than taking key decisions, which would be taken by the Executive or Full Council, or where the decisions has been delegated to a sub-committee. They meet weekly and every other week meet as the Transformation Board to oversee the Council's transformation programme.

Directorate Leadership Teams (DLT)

The DLTs are in place for each Directorate and are chaired by the Corporate Director. Membership also includes business support partners from finance and performance. All decisions would be reviewed by DLT prior to CLT and Cabinet.

Performance Review Board

This is an officer board, chaired by the Chief Executive. Its aim is to review performance against the Council's strategic objectives prior to review by CLT.

Information Governance Group and Information Governance Board

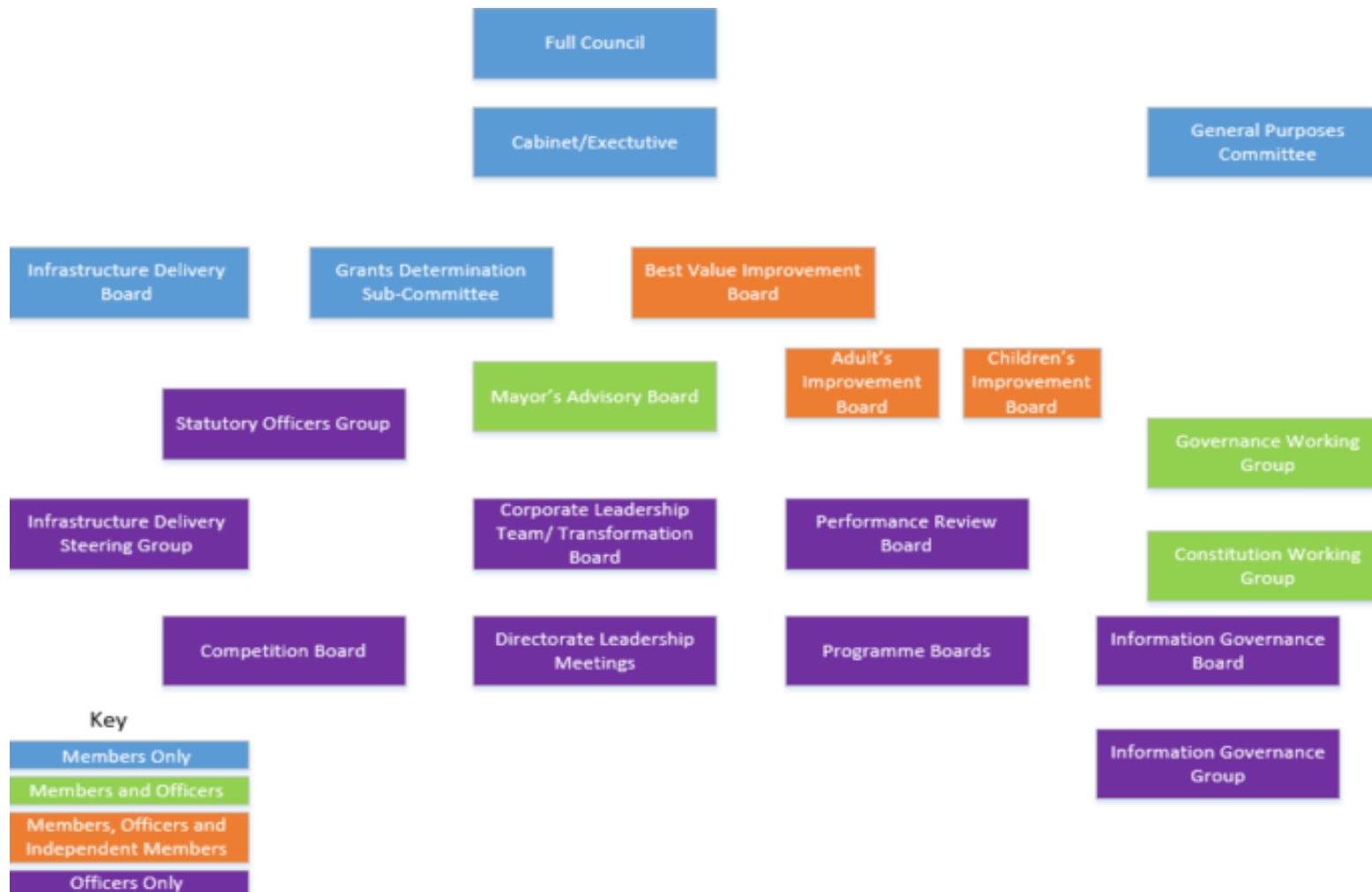
The Council has an Information Governance Group and an Information Governance Board. The Information Governance Group is an officer group chaired by the Head of Legal Services and includes representative from across the Directorates. It is an operational group and reports to the Information Governance Board. The Board report to CLT and Cabinet on an annual basis.

Competition Board

This is an officer group.

Governance Framework (cont'd)

The following summary provides a high level overview and does not provide details of all the groups and committees which operate across the Council. The links between these governance committees/groups and boards are complex and varied.





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London Borough of Tower Hamlets

Review of financial management using the CIPFA Financial Management Model

March 2017



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Appendices

APPENDIX 1	CIPFA Financial Management Model - summary
APPENDIX 2	Review methodology

1. Executive summary

In October 2016, the London Borough of Tower Hamlets (LBTH) commissioned CIPFA (Chartered Institute of Public Finance and Accountancy) to undertake a review of financial management. The review took place between November 2016 and February 2017.

In order to establish a financial management baseline, provide a comparison with other organisations and prioritise financial management improvements, LBTH decided to use the CIPFA Financial Management Model (herein referred to as the FM Model) as a framework for the review.

LBTH is an inner city borough which shares boundaries with the City of London and the London Boroughs of Newham and Hackney. Over the past five years, Tower Hamlets has seen the most growth in population, employment and new homes in all of East London. This growth has provided opportunities for new homes, new jobs and increased investment in infrastructure and services.

The 2011 census shows that LBTH has the fastest growing population in the country in recent years, growing almost 30% between the 2001 and 2011 Census. The Census also shows that LBTH is the third most densely populated borough in London with a population of 284,000 with a daytime population that increases by about 60%, rising to 428,000. Despite the growth and the prosperity associated with it LBTH has one of the largest health inequality gaps in the country and has one of the highest rates in London of people suffering bad or very bad health.

1.1 The CIPFA Financial Management (FM) Model

The CIPFA FM Model is recognised by HM Treasury (UK) as setting out the fundamentals of best practice financial management within a public sector organisation. It has been chosen by HM Government (HMG UK) Finance Leadership Group (FLG) as the framework to be used for financial management self-assessments. The Model uses a scoring system to provide an objective measure of financial management performance including the identification of strengths, weaknesses and areas for improvement. Importantly the review measures the whole organisation's attitude to financial management not just the performance of the finance team. The assessment is based on a mix of evidence obtained through survey¹, interview² and document review.

The CIPFA FM Model is based on 30 statements of best practice. Each of these statements is supported by a series of questions which both explain the scope of the statement and help evaluate the extent to which the statement applies to the organisation. This assessment is scored on a scale from 0-4 to aid aggregation and comparison.

1.2 Best practice matrix

¹ 179 out of 242 participants (74.0%) completed the electronic survey.

² 35 interviews were conducted.

The matrix overleaf aggregates assessments for individual statements of best practice in the FM Model and summarises CIPFA’s assessment of LBTH’s financial management arrangements. Using the matrix, the key findings of the review can be summarised across the three financial management styles and four management dimensions. Details on relevant financial management styles and dimensions can be found in Section 3.3 below.

Actual scoring – best practice matrix (scored out of 4)

FM Model key findings chart for LBTH

Financial Management Styles	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Delivering Accountability	2.5	1.5	2.5	3.0
Supporting Performance	2.0	1.0	2.0	1.5
Enabling Transformation	2.0	1.0	1.0	3.0

From the best practice matrix the Delivering Accountability style of financial management scores best. This is an area that is heavily regulated and prescribed by HM Treasury and Cabinet Office best practice, and is also most closely related to the traditional role of the finance function. Typically there should be a pattern of progression in scoring with the highest being Delivering Accountability and the lowest being Enabling Transformation with a stepped progression between the financial management styles. This is not the case at LBTH where scoring for Enabling Transformation is marginally higher than Supporting Performance albeit with only 0.5 between the two.

From the best practice matrix the Stakeholder dimension comes out as the strongest management dimension due to LBTH’s strength in consulting with local communities and businesses.

Looking at the management dimensions LBTH scores particularly badly under the people heading. The rest of this report and, in particular the areas highlighted for development, need to be read in this context.

1.3 Strengths and areas for further development

1.3.1 Strengths

The high level strengths we identified include:

- Financial reporting – LBTH’s financial statements are prepared on a timely basis, are well presented and have been given a clean audit opinion (excluding VfM) by appointed external auditors - KPMG
- Finance Function is technically sound - Finance staff have strong technical skills and are able to support the organisation on a range of specialist issues
- Effective assurance arrangements – LBTH has a sound approach to corporate governance through sound structures, good financial regulations and an effective internal audit and risk management function
- Strong stakeholder engagement – the Council carries out extensive consultation with the local community and business groups and external views are incorporated effectively into the Medium Term Financial Strategy
- Aware of the need to change – in the past LBTH has been complacent, largely because of the lack of budget pressures. However, the organisation is aware of the need for transformation and change is underway. Many of our comments in this report reflect the current changing environment

1.3.2 Development areas

From our assessment, we have identified areas within the LBTH that could benefit from further development. Eleven areas were identified as follows:

- Ownership and accountability for financial performance: absence of ownership and accountability for budgets – concealment of overspends through the use of reserves
- Strategic structure: need for strong, visible strategic leadership – finance staff in operational directorates need more leadership and direction from both the corporate finance team and from service directors
- Financial Strategy: lack of synergy between MTFS and supporting strategies – absence of links/integration with workforce strategy and performance measures - reluctance for budgets, outcomes, activities and performance to be aligned to corporate objectives – messages from CMT not translated through the organisation
- Financial Management Information Systems: self-service systems do not work well for budget managers - data needs manual manipulation - managers require handholding by finance restricting latter’s ability to add value – information not trusted – resource inefficient -need clarity on future user needs – significant investment required
- Financial Transaction Systems: major problems with systems around coding errors, incorrect journals and maintenance of the workflow – requires manual intervention and leads to a waste of finance staff time
- FM Competency Framework and performance framework: no cohesive framework in place - variable financial management and system skills of managers – accountability not well understood – finance challenge requires greater depth
- Business Partnering: lacks effectiveness; accountants not universally perceived as up to this role – commercial skills gap – soft skills require honing – need to build understanding of expectations of managers and demonstrate delivery of service – need for more individual agility to drive transformation

- Value for Money approach: not well understood or consistently applied – there is a tendency to proceed with projects before finance staff have had a real input to the decision making process
- Finance Function positioning and service planning: needs greater visibility – need for a clear finance function service plan including service agreed performance targets - perceived absence of energy/drive for efficiency – viewed as bureaucratic - divided and not structured to drive transformational change – not a lot of resilience
- Lack of diffused FM literacy: absence of understanding of detailed activity costs – lack of involvement of managers in submission of benchmarking data
- Risk Management: the Council has a Risk Management Policy Statement and a Risk Register. However, the organisation has been risk averse in the past, and the current process are 'tick box' in nature and not dynamic

The aim of this review is to help improve financial management within the organisation as a consequence this review the organisation will plan to develop and implement an action plan to respond to the development areas identified above. To facilitate this we attach at the end of this Executive Summary a framework action plan for discussion.

1.4 Direction of Travel

Our assessment of the London Borough of Tower Hamlets' scores against the best practice statements in the CIPFA Financial Management Model, places it in the fourth quartile of all organisations we have worked with. Whilst this assessment is based on a snapshot of the current position, it is clear that LBTH is already taking steps to make improvements in a number of areas. Finance are currently adapting to the new structure with the result that roles and responsibilities are not widely understood. There is an insufficient level of resilience in the team to meet the challenges of transformational change. In practice LBTH has yet to fully embrace the more advanced styles of financial management. Such a move will enable it to become more effective in successfully meeting the financial challenge set by the budget gap and future funding changes.

Notwithstanding these findings and development needs, LBTH has the foundations and plans in place for the development of strong financial management capability.

1.5 Overall conclusions

LBTH is able to demonstrate a sound level of financial management capability with corporate accountability and stewardship being secured through a competent finance function and supporting governance and assurance functions. Such strengths are typically associated with the more traditional stewardship aspects of financial management. There is some evidence of good practice across the organisation, particularly in the areas of financial accounting, internal control and strong customer focus. The organisation runs a finance function that has been subject to a recent restructuring with an evolving Business Partnering role, however fundamental re-shaping of the function has yet to take place.

Finance is not currently well placed to 'add value' in a way that would help drive the business towards transformational change. Whilst we would regard the Chief Finance Officer (CFO) as being highly effective, the CFO role is not supported across the wider organisation. There is a need for clarification of the role of the Business Partners as there is a lack of clarity

about their relationships with operational managers and also with the corporate finance function. The ability to focus on finance is important, not only in the pure sense of financial reporting issues, but also in considering future strategic sustainability. The structure of the Finance function lacks balance between devolved finance units and core central functions. Within the core finance function itself resourcing of business as usual, financial strategy and transformational change activities appears to have evolved rather than mapped to required resourcing requirements taking account of staffing numbers, complexity and skillsets.

A lack of ownership and accountability over financial performance by budget holders represents the most significant financial management challenge for LBTH. Financial challenge is not sufficiently robust, as a consequence of the competing demands and pressures on finance decision support. Performance management is not effectively discharged in the absence of an agreed performance framework.

LBTH has launched a major transformation programme which is intended to make the workforce more agile and to change the way the authority is funded and run, and many of these activities here are innovative. In particular the introduction of Output Based Budgeting is to be commended. However, LBTH needs to do more to demonstrate that VfM is within the 'DNA of the organisation'; a required significant shift in culture is yet to be achieved.

Financial planning and budget setting both have room for improvement. The Medium Term Financial Strategy (MTFS) is a good document that meets most of the requirements of the best practice model. However, we have concerns over the underlying robustness of the budgeting process. This is exacerbated by a lack of challenge by finance and by poor budget monitoring and forecasting on the part of budget managers. Enabling strategies such as the Capital Strategy, People and ICT that should be linked to financial strategy are either out of date or incomplete compromising the robustness of the MTFS itself. The risk is exacerbated by a lack of clarity on communications and uncertainty from the senior management level.

The Finance Function is not sufficiently influential and more support is required to develop leadership qualities to bring about a transformational impact on the organisation's development. The extent to which Finance can detach from data manipulation and add value is seriously constrained by the weaknesses in the current financial system, Agresso. Pushing against the move to add value is the constraint on Finance's ability to carve out sufficient time to explore user needs for a future enhanced financial system. The system is very susceptible to errors in areas such as miscoding and maintaining workflows. These elements require manual intervention which uses up a huge amount of finance time.

Service Areas have a limited clarity and understanding of what the role of Finance Services is. LBTH needs to develop a contract basis for Financial services, with standards and levels of service defined, to strengthen clarity and understanding, which in itself will act to raise the profile of Finance in the organisation.

Business Partnering is in place and should be integral to business unit staffing and decision-making as well as providing challenge and support. Business Partners need sufficient 'standing/credibility' within the organisation. LBTH needs to strengthen wider commercial skills/attitudes and articulate a commercial strategy which is embedded within the DNA of the organisation. Roles and responsibilities for financial management are not clearly defined at LBTH.

A training programme for non-financial managers exists through e-learning and, in our opinion, LBTH would benefit by ensuring successful completion of this programme as a precursor for officers being considered as budget holders. At the moment it is too easy for managers to circumvent this “compulsory” training. There is a lot of “handholding” from Business Partners and core finance; the big shift in culture that is required is yet to come. Recruitment and development of good quality finance staff will be vital to a future high performing Finance function and to LBTH’s successful transformation. The current draft workforce strategy needs to include data and targets to aid senior management’s view of options available for the future. The use of a tailored competency framework for professional financial management will help here.

The current financial system, Agresso, is not efficient. The system requires significant manual manipulation of data and this element of manual resourcing imports additional cost and risk. The emphasis for successful transformation is a fundamental reshaping of financial management processes. The current financial system is not going to help facilitate transformational change. Further work is required to understand needs of system users, and this may require a radical approach and, possibly, consideration of a new finance system.

Whilst LBTH is engaged in strong stakeholder consultation it may not be giving sufficient attention to achieving necessary improvement in the internal quality of delivery mechanisms, which will allow external expectations to be met in a timely manner and within funding constraints.

1.6 Concluding comments

We would like to thank the Members and officers of LBTH who contributed to the completion of this review through interviews and completion of an online survey. We would especially like to thank the team of staff responsible for pulling the majority of the evidence together for the assessment.

Action plan

	Issue	Priority/Lead
Ownership and accountability	<ul style="list-style-type: none"> • absence of ownership and accountability for budgets • lack of sanctions for non-compliance • complacent attitude by managers with respect to finding budget cuts • Use of reserves to hide overspends 	
Strategic structure:	<ul style="list-style-type: none"> • need for strong, visible strategic leadership • strong leadership role required for finance staff in operational directorates 	
Financial Strategy	<ul style="list-style-type: none"> • lack of synergy between MTFS and supporting strategies • absence of links/integration with workforce strategy and performance measures • reluctance for budgets, outcomes, activities and performance to be aligned to corporate objectives although changing with OBB • messages from CMT not translated though the organisation 	
Financial Management Information Systems:	<ul style="list-style-type: none"> • self-service systems do not work • data needs manual manipulation • managers require handholding by finance restricting latter's ability to add value • information not trusted • resource inefficient -need clarity on future user needs • need for greater corporate standards setting • significant investment required 	
Financial Transaction Systems:	<ul style="list-style-type: none"> • high level of coding errors in the GL • automated invoice matching is unreliable and leads to duplicate payments • high level of inaccuracy in journal posting in the GL • workflow system is cumbersome to maintain • high level of manual intervention is resource inefficient • 	

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FM Competency Framework and performance framework:	<ul style="list-style-type: none"> • no cohesive framework in place • variable financial management and system skills of managers • accountability not well understood • finance challenge requires greater depth • 	
Business Partnering	<ul style="list-style-type: none"> • lacks effectiveness; accountants not universally perceived as up to this role • commercial skills gap • soft skills require honing • need to build understanding of expectations of managers and demonstrate delivery of service • need for more individual agility to drive transformation • absence of Business Partners on many DMTs • 	
Value for Money approach	<ul style="list-style-type: none"> • not well understood or consistently applied • lack of involvement by managers in submission of benchmarking data • finance input to business cases too late to influence decision making • 	
Finance Function positioning and service planning	<ul style="list-style-type: none"> • needs greater visibility • need for a clear finance function service plan including service agreed performance targets • perceived absence of energy/drive for efficiency • viewed as bureaucratic • divided and not structured to drive transformational change • not a lot of resilience 	
Lack of diffused FM literacy	<ul style="list-style-type: none"> • absence of understanding of detailed activity costs • poor training on financial systems especially the GL • "compulsory" e-learning modules are easily circumvented • job descriptions regarded as out of date • weakness in governance approach on capital projects leading to slippage 	
Risk Management	<ul style="list-style-type: none"> • processes are in place but more of a tick box exercise - the Council is perceived as risk averse and arrangements are not dynamic 	

2. Introduction

Between November 2016 and February 2017, the London Borough of Tower Hamlets (LBTH) completed the CIPFA FM Model to provide the basis for a review of financial management arrangements within the organisation.

The CIPFA FM Model sets out the fundamentals of best practice financial management within a public sector organisation and uses a scoring system to provide an objective measure of financial management performance including the identification of strengths, weaknesses and areas for improvement. A more detailed explanation of the CIPFA FM Model is provided at **Appendix 1**.

2.1 Understanding the organisation

LBTH is an inner city borough which shares boundaries with the City of London and the London Boroughs of Newham and Hackney. Over the past five years, Tower Hamlets has seen the most growth in population, employment and new homes in all of East London. This growth has provided opportunities for new homes, new jobs and increased investment in infrastructure and services.

The 2011 census shows that LBTH has the fastest growing population in the country in recent years, growing almost 30% between the 2001 and 2011 Census. The Census also shows that LBTH is the third most densely populated borough in London with a population of 284,000 with a daytime population that increases by about 60%, rising to 428,000. Despite the growth and the prosperity associated with it LBTH has one of the largest health inequality gaps in the country and has one of the highest rates in London of people suffering bad or very bad health.

The approved net General Fund budget for LBTH services in 2016-17 is £362 million which represents spending of £337 million and the application of earmarked and general reserves of £25 million. Spending in 2017-18 is estimated to be £23 million lower at £339 million. The Council has around 10,500 staff of whom 4,800 work in schools. LBTH's Corporate Management Team is led by the Chief Executive, supported by Corporate Directors who report to the Chief Executive. The current structure is changing from 1 April 2017 and so we have shown the new titles and responsibilities below:

- Corporate Director for Place: Property & Major Programmes, Regeneration, Housing and Economic Regeneration, Planning and Regulation, Public Realm;
- Corporate Director for Resources: Finance, Procurement and Audit, HR and Transformation, IT, Revenues and Benefits and Customer Services;
- Corporate Director for Adults: Adult Social care, Community Safety, DAAT and ASB, Public Health and Integrated Health;
- Corporate Director Children's: Children's Social care, Education and Partnership, Sports, Leisure, Culture and Youth and Commissioning; and

- Corporate Director of Governance: Governance and Democratic Services, Legal, Strategy, Policy, Equalities and Partnerships, Communications, Registrar, Executive Support, Electoral Services and the Mayor's Office;

Like other local authorities, LBTH faces financial challenges in the coming years. Government funding continues to reduce increasing pressure on LBTH's budget for 2017/18 and beyond. The projected budget gap over the life of the current medium Term Financial Strategy is £59m. This is the first time that LBTH has faced significant budget pressures and it is meeting the challenge by embarking on a programme of change to transform the way in which services will be delivered in the future. This will have a major impact on corporate support services which will be expected to deliver over £30m of the planned savings of £58m. This programme includes an ambitious plan to relocate the Town Hall to Whitechapel and to make the workforce more agile by investing around £25m in redeveloping the ICT infrastructure.

LBTH has also introduced a new approach to budget setting. 2017/18 has seen the introduction of Outcomes Based Budgeting (OBB) for the first time. This will require officers and members to challenge current methods of service delivery by making use of external comparisons and benchmarking data. LBTH will need to demonstrate that its services provide Value for Money. These changes are being introduced against a background in recent years of relatively high levels of reserves and funds carried forward. LBTH needs a robust financial management structure to support the coming period of change, and the CIPFA Financial Management Model fits with that approach.



3. Key findings

This section outlines findings from the assessment and supports the action plan included in the Executive Summary. It is anticipated that LBTH will address the issues raised over the next 12 months as part of its plans for the continuing development of financial management within the organisation.

3.1 Applying the CIPFA Financial Management (FM) Model

In applying the CIPFA FM Model evidence was gathered from three main sources:

- document review/evidence
- interviews
- survey

Information from these different sources has been brought together to give an assessment for each of the best practice statements relevant to the LBTH. Further details of the methodology used are shown in **Appendix 2**. Within this section of the report, direct quotes from interviews and the survey are included but are not attributed to the individuals concerned.

3.2 Summary of CIPFA Financial Model Scores

The matrix below summarises CIPFA's evaluation of the LBTH's financial management arrangements against the best practice in CIPFA's FM Model, with each area being awarded a score from 0-4 (where 0 means the underlying statements of best practice do not apply at all and 4 means they fully apply). It should be noted that this takes into account the document review, interviews and electronic survey. The matrix is based upon CIPFA's scores for each statement, summarised across the three financial management styles and four management dimensions as shown below. The following key outlines the extent to which each grouping of good practice statement applies at LBTH in RAG rating:

Scoring - the extent to which statements apply	0.0	Not at all
	0.5	Hardly
	1.0	Hardly
	1.5	Lower than basic
	2.0	Somewhat
	2.5	Mostly
	3.0	Strongly
	3.5	Strongly
	4.0	Fully

3.3 Best practice matrix

FM Model key findings chart for LBTH

Financial Management Styles	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Delivering Accountability	2.5	1.5	2.5	3.0
Supporting Performance	2.0	1.0	2.0	1.5
Enabling Transformation	2.0	1.0	1.0	3.0

The high level matrix measures Financial Management Styles with Management Dimensions. The styles of financial management are intended to be progressive, with a general expectation that organisations are likely to firstly establish the building blocks of control and adherence to regulations through the ‘Delivering Accountability’ style. This leads on to financial management contributing towards ‘Supporting Performance’ by assisting decision-making and supporting the delivery of organisational objectives. ‘Enabling Transformation’ would then be likely to represent the next stage, with financial management supporting the change agenda, innovation and re-engineering of systems and processes, where appropriate.

The Model is also organised by 4 management dimensions of Leadership, People, Processes and Stakeholders. These cover both “hard edged” technical attributes that can be measured, as well as “softer” features such as communications, motivation, behaviour and cultural change.

Each element of the matrix shows not only the score assessed but also identifies the individual statements that contribute to that score e.g. L1 and L2. Later in this report we include the scoring and evidence for each statement grouped in the same way.

3.4 Overview – Styles of financial management

For LBTH, “delivering accountability” is clearly the strongest financial management style with a total score of 9.5 out of a possible total of 16. However, this total masks significant variations within the style of management. Although the Council scores well for the stakeholder dimension it scores only 1.5 for the people dimension. Leadership and processes are amber with scores of 2.5 each. This is not what we would expect for a well-established organisation in the heavily regulated public sector. It demonstrates that there is a significant weakness in the way that staff are managed and developed and we will



return to this later in the report. This style reflects the more traditional role of financial management and is one that is generally the strongest.

Whilst Delivering Accountability scoring is naturally stronger, scoring for Enabling Transformation is marginally lower than Supporting Performance with scores of 6.5 and 7.0 respectively. This is not what we usually find and the scores suggest that this is due to the way in which LBTH communicates effectively with its stakeholders.

From the best practice matrix the Stakeholder dimension comes out as the strongest management dimension due to LBTH's extensive consultation with communities, businesses and other local organisations.

3.5 Overview – Management dimensions

For LBTH the results above demonstrate that "the Stakeholder" is the strongest management dimension by a substantial margin. Our work indicates that the Council has focused on enhanced transparency, communicating with customers and stakeholders concerning services provided and spending priorities.

In sharp contrast the "People" dimension appears in a very poor fourth position with a score of only 3.5 out of 12. From our experience the "People" Dimension is typically the weakest of the Management Dimensions across the range of organisations we have worked with and our findings clearly highlight that "People" related issues feature across a number of development areas incorporated within our draft Action Plan. Particularly, we found a lack of understanding of the finance role and a consequential gap in ownership and accountability for financial performance by budget holders. Our Action Plan features a whole range of issues related to planning and budgeting processes where financial management skills and understanding of non-financial managers needs to be more strongly in evidence.

Within the "Processes" dimension the "Enabling Transformation" style scores badly due to a number of issues with the way in which Agresso operates and the consequent lack of understanding of the budgeting and forecasting process. There are also issues around the high level of manual interventions that are required to maintain the system.

Finally "Leadership" scores 6.5 and is in the amber category. Although there is high level leadership from the corporate centre of the finance function this does not permeate throughout the organisation. We will return to this issue later in the report.

3.6 Statement scoring and assessments

In this section of the report, we show scores for individual statements and summarise the evidence upon which the assessment is based. These statements are grouped in the same way as on the summary matrix, e.g. L1 and L2 together immediately below. The only exception to this is in relation to PR1 to PR9 where this large group of statements is broken down further at the delivering accountability level as explained later.

3.7 Leadership – delivering accountability

Delivering Accountability	L1	Financial capability is regarded as integral to supporting the delivery of the organisation’s objectives. The CFO is an active member of the board, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team.	2.5
	L2	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the <i>board</i> through executive and non-executive directors to front line <i>service managers</i> .	2.5
	L3	Within an annual budget setting process the organisation’s leadership sets income requirements including tax and allocates resources to different activities in order to achieve its objectives. The organisation monitors the organisation’s financial and activity performance in delivering planned outcomes.	2.5

For the Delivering Accountability style there are three statements that consider the elements of an effective framework of financial management.

For L1 the statement focusses on the role of the Chief Financial Officer (CFO), in driving financial management forward in ensuring it is integral to supporting the achievement of organisational objectives. The Chief Finance Officer is key also in ensuring the appropriate profile and positioning of the finance function within the organisation, to enable it to play its role in developing corporate strategy and business decision making. This statement meets the average score that we find in other organisations.

At LBTH the CFO (and section 151 Officer) role is represented at the Corporate Management Team level by the Corporate Director for Resources. She is supported by the Assistant Director Finance, Procurement and Audit who acts as Head of Profession for finance staff at the centre and in operational directorates. Both the Corporate Director and the Assistant Director are professionally qualified with substantial experience in London boroughs and other Councils. In the past there has been a lack of focus on finance across the organisation so the Council appointed new officers to the two posts above just over 12 months ago. As a result there is a positive answer to the first part of L1 in that finance is now seen as integral to enabling the delivery of the Council’s objectives. The Corporate Director for Resources has a high profile role not just in Finance but also in transforming the organisation. In addition to Finance we note that the Corporate Director Resources is also responsible for a number of other functions including HR & Transformation, IT and

Customer Services. Although it is not unknown in public sector organisations for such a senior level position to have responsibility for more than one area of the business, we would draw your attention to this matter in the context of the prevailing HM Treasury and CIPFA guidance on the CFO requiring that organisations review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised. Principle 1 of CIPFA's the role of the Chief Financial Officer in public service organisations includes for the following requirements of a CFO³:

"There is a growing trend for CFOs to hold a range of different responsibilities beyond finance, including managing other services or leading change programmes. Whilst these can develop the individual as a corporate manager, organisations must not let the CFO's core financial responsibilities be compromised through creating too wide a portfolio. Dilution and/or overload in the role of the CFO can result in poor financial outcomes for the organisation. Setting out the core CFO responsibilities in this Statement is intended to allow public service organisations and their CFOs to assess their job descriptions to ensure that their core finance responsibilities can be properly performed."

The expanded role may contribute to the fact that the second part of the question is more problematic. Within the operational directorates finance is not highly visible nor is it particularly influential. It is not regarded as supportive by budget managers. Indeed, the problem extends to operational finance staff who are unclear about the role of corporate finance and their relationship with their colleagues. The problem is exacerbated by the frequent changes in staff and by the number of interim staff employed in the finance function. One member of staff commented "I don't know who the CFO is". This leads to a lack of "buy in" to financial management from budget holders.

We are aware that the finance function has been restructured recently so that there is now a direct, professional reporting line for finance staff to the Corporate Head of Finance. Within directorates the Assistant Director, Resources role has been abolished and replaced with the Finance Partner role. This new role is designed to support budget managers on a pro-active basis but there is a lot of confusion over their role and, how they should interact with operational managers and with the corporate centre. The Finance Function was last restructured in January 2014 but staff expressed concern over the speed of the reorganisation, the lack of training to support the changes and the fact that there has been no review of the restructuring before the current reorganisation was implemented

With regard to the detailed survey results only 52% of survey participants agree (and 34% don't know) that standards of compliance and objectivity of advice on finance matters are supported in LBTH by the line of professional accountability from the CFO through to those with principal functional responsibility for finance within the business. A minority of our survey participants (24%) agree that shared accountabilities and commitments between the Finance function and other business areas are clearly defined, with a further 28% don't know. Survey participants were also unsure about the extent to which the Finance function is central to core business decision formulation with only 51% agreeing and some 33% don't know.

³ CIPFA - the role of the Chief Financial Officer in public service organisations – Principle 1 – Page 9

Business Partnering

Looking specifically at the role of the Business Partners only 46% of participants thought that finance can and do give appropriate support and challenge to budget managers. The Finance team are viewed as producing clear and meaningful financial analysis, which is robust and impartial, by only 43% of our survey participants, with a further 27% being "don't knows". This view is supported by many of our interviewees who expressed concern that Business Partners were not capable of providing the necessary support either because of poor interpersonal skills or because of a lack of technical understanding of the business area. In addition many Business Partners were unclear about their role and what was expected of them.

At L2, the FM Model anticipates a number of key components for an effective financial management framework and these are generally in place at LBTH. We comment on the main components below.

Our survey participants are specifically asked whether they feel that the Corporate Management Team sets the tone that finance matters but only 32% of our survey participants agree with this idea while 53% don't know. Despite this low score our other work suggests that many of the basic building blocks are in place and that they function well. However, this does not appear to be communicated to staff.

Corporate Governance

The Council's Corporate Governance Framework is embodied in the document the "Guide to Our Core Values and Corporate Leadership and Management Framework." This sets out the Core Values of the Council and what it expects of its staff. A large part of the document is about management development and how staff will be trained, developed and appraised. In addition there is a comprehensive set of Financial Standards and Regulations running to over 100 pages covering Financial Regulations and Financial Procedures.

In terms of structure there is a clearly defined committee structure with an Overview and Scrutiny Committee supported by a number of sub-committees. There is an Audit Committee which considers reports from both internal and external audit and also considers risks to the Council. The Council produces an Annual Governance Statement and we have seen the draft Annual Governance Statement 2015/16 drafted by the Corporate Director of Resources which went to the Audit Committee on 20 September 2016. This was an urgent item in order to meet the statutory deadline of 30 September for sign off by the CEO and the Mayor. The 2014/15 AGS raised thirteen significant governance issues. The current status of these issues is shown in the report. The Assurance Control Checklist is an appendix to the report and provides a wholly positive answer to the questions of governance. In our view it appears to comply with the Accounts and Audit Regulations and the example seen was positive in its conclusion.

We also reviewed the Council's policies on Fraud and Corruption. There is an Anti-Fraud and Corruption Strategy 2016/17, written by the Director of Resources, and this was presented to the Audit Committee on 28 June 2016. The overall strategy is supported by a comprehensive set of Appendices including a separate Whistle Blowing Policy. Overall

the areas of Fraud and Corruption appear to have been covered in great depth and the issues also appear to be taken very seriously by the Council.

Reporting LBTH Finances

The Council is provided with a consolidated view of the organisations finances and risks.

We have reviewed the draft Annual Report and Accounts for 2015-16 and they conform to sector requirements, and include the AGS which is signed by the Chief Executive. The Annual Accounts were subject to a Value for Money qualification in 2013/14 and again in 2014/15. The external auditor's management letter is considered at appropriate levels within the Council and appropriate action has been taken to resolve the VFM issues working in conjunction with government appointed Commissioners. The external audit letter for 2014/15 raises no significant issues in relation to financial accounting and the external auditors confirmed subsequently that there have been no significant issues in relation to the accounts.

The Audit Committee receives and monitors the implementation of internal and external audit recommendations. The Committee and Council also receive the external auditor's annual letter for consideration of any recommendations.

Statement L3 has 3 strands, bringing together the matching of resources to organisational priorities, monitoring to ensure those priorities are achieved and the establishment and review of financial management policies.

Balancing the increasing demand for the varied range of local services with available resources is a significant challenge. LBTH has prepared a medium term financial strategy with separate supporting appendices. The overall allocation of resources to meet priorities is reflected in the annual budget. The Council has set out two key priority aspirations for the Council which have been arrived at following consultation with residents:

- Priority 1 - To create opportunity by supporting aspiration and tackling poverty
- Priority 2 - To create and maintain a vibrant and successful place

These priorities are supported by a third enabling objective of 'a transformed Council that makes best use of resources and develops a culture of transparency and trust'.

In previous years resources have not been aligned to corporate priorities or clearly aligned with strategic objectives. There has been little pressure to reduce expenditure and where overspending has occurred it has been masked by the use of reserves. This has led to the development of a culture where financial management has not been subject to the same degree of rigor that we have found in other authorities.

For 2017/18 the picture has changed significantly and the Council has identified the need to find savings of £58m over the life of the Medium Term Financial Strategy (MTFS). For the first time the Council has introduced the concept of Outcomes Based Budgeting (OBB) Finance in order to find the savings required. However, this process has not been applied with the same degree of effectiveness across the Council with some areas adopting a more

traditional “salami slicing” approach to budget cuts. On the positive side one survey participant commented:

“previously there used to be top slicing of budgets to achieve savings however in recent years there has been a more strategic approach of focusing on different areas that can deliver savings.”

Finance staff have been heavily involved in this process although there is a view among finance staff interviewees that their input is too late and that decisions are made as a result of the financial imperative and not on the basis of a sound business case. This is perhaps the first significant challenge to budgets in recent years and we are concerned that budget holders are not working sufficiently closely with their Business Partners. Our concern here is that the responsibility for thorough analysis should be accepted by the operational areas; the areas need to demonstrate ownership of their budgets. Finance have the role of challenge, and of providing advice to Senior Management/Members for decision making purposes. However, Finance are not well positioned to assert their influence and persuade areas to own their budgets.

We have seen evidence that the Corporate Management Team (CMT) and the appropriate committees and Council monitor performance/budgets and challenge reports on these items quarterly. Our evidence suggests that detailed performance reports are presented to Cabinet or full Council.

In terms of monitoring performance there is a six monthly Strategic Performance Monitoring Report that report details the Council’s progress in delivering activities within the Strategic Plan and performance for Strategic Measures at the six month stage. This report is supported by a series of detailed appendices that provide graphical information on performance. The report is considered by the CMT and by the Cabinet.

A quarterly Corporate Budget Monitoring Report prepared by the Chief Accountant is presented to the CMT and to the Cabinet by the Corporate Director for Resources. The Lead member for Resources takes a personal interest in this report. The report covers:

- General Fund Revenue and HRA
- General Fund and HRA Capital Programme
- Key balance sheet information

During the course of our document review we saw the report for the end of period 6 i.e. September 2016. The net spend for 2016/17 per the budget was £361.9m with funding of £338.6m leaving a gap of £23.4m. At the end of period 6 the projected out turn was showing an overspend of £1.5m on the general fund and a surplus of £11.2m for the HRA. The report also showed a shortfall in the projected savings for Children’s Services of £966K which will not be achieved.

The Capital programme for the year was set at £170.4m of which only £25.45m or 15% had been spent as at the end of period 6. This highlights a major problem with the way in which the Capital programme is set. Once a capital project has been approved the full amount of the expenditure is shown as due to be spend in year 1. There is a lack of

accurate profiling of capital expenditure with the result that budgets are always showing as underspent. We return to this issue again below under Processes.

There is also an issue with regard to the timeliness of reporting. The report for period 6 referred to above was not seen by the Cabinet until the middle of December 2016. As a result the reports appear too late for senior officers or members to take remedial action or to reallocate resources. The timeliness of reporting is of major concern to members and needs to be addressed urgently. Otherwise the report provides a useful report to the CMT and Members. More detailed, monthly monitoring reports are also provided to budget holders and Directorate Management Teams and, again, we will refer to these under the Processes section of our report.

All of the corporate governance and reporting processes above are supported by the Financial Regulations referred to at L2, which define the responsibilities of the Treasury Manager, and s151 officer. Financial Regulations also provide rules on the definition of budget holder/budget delegation and other roles that are relevant here for each stage of the financial management process from planning to budget implementation.

Assurance on compliance with these regulations and procedures is provided through the work of Internal Audit and External Audit.

3.8 Leadership – supporting performance

Supporting Performance	L4	The organisation has a developed financial strategy to underpin medium and longer term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focussed business objectives and priorities.	2.0
	L5	The organisation develops and uses financial/leadership expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.	2.0

For the performance style there are two statements which consider financial planning, financial management strategy and the way financial management expertise is used in strategic decision-making. The scoring for L4 and L5 at 1.5 are both below what we would expect to see.

At L4 the FM Model expects there to be a clear integrated strategy with linkage between business plans, workforce strategy, and underpinning financial strategies (including procurement strategy, asset management strategy etc.), i.e. a medium-term financial



strategy, to demonstrate that resources are in place to deliver the planned actions. Most of the supporting questions here refer to a medium term financial strategy.

LBTH has a detailed, written MTFS which conforms to CIPFA's Best Practice Guidance and which is supported by detailed budget schedules. The MTFS is presented to Cabinet and is ultimately approved by the full Council. As part of our work we have reviewed the MTFS for 2017/18 and the supporting strategies referred to above. Although the document itself appears to be sound we have major concerns over the rigor of the underlying processes. We have already referenced the shortcomings in the 2017/18 budget process and we will refer to these again under process issues below. However, our review of the major resourcing strategies reveals a lack of detail and a failure to bring the strategies together to address corporate priorities. The major concerns are:

- HR Strategy – although we could find a high level Workforce Strategy 2016 to 2021 containing the Council's aspirations it had no objective indicators by which the Council could monitor achievements. In many cases indicators were left blank pending their development. We were unable to find any evidence of a detailed HR strategy setting out what the Council expected to achieve, by when, the cost of implementing the strategy and how success would be measured. Furthermore, there is no clarity over who is responsible for developing the strategy and who will be accountable for its delivery
- Procurement Strategy – the Council has an addressable spend of £345m and it has a robust strategy which sets out seven key principles for procurement. There is an Annual Procurement Report that outlines progress against those seven principles and positive progress is being made. There is also a contracts' register and all contracts over £25K are procured through the Council's e-tendering system. Our key reservation is that although the procurement processes are working well there is a lack of a "business-like" approach across the Council. This relates, in part, to the relaxed approach to financial management referred to above but there is clearly a need to embed a "business-like" approach within the wider organisation
- Asset Management Strategy - The Council has an Asset Management Strategy that covers the period 2015 to 2020 and which sets out its Scoping, Principles and Priorities. The financial implications of this were updated in 2015 to reflect the financial implications of the July 2015 Medium Term Financial Plan. One of the key principles of the strategy is that the strategic elements of the Council's portfolio are managed by the Asset Management Team. We found that there was concern over whether this was working in practice with some properties potentially being disposed of before consideration has been given at an appropriate level as to whether there could be a better corporate use of the property. CMT has recognised the need to update the strategy to clarify the buildings required, costs and opportunities for more efficient use or disposal. This needs to be done with close working with the ICT and HR strategy work to ensure that a true corporate view can be developed. We believe that this should be underpinned by a Target Operating Model that ensures investment is placed in the right locations and that benefits are identified and then realised

- ICT Strategy - Our overall conclusion is that there has been underinvestment in ICT over the last few years and the Council now needs to make a major investment in making the infrastructure fit for purpose. As a result the Council has completed two key pieces of work in the last year. It has worked with SOCITM who produced an ICT Strategy in June 2016 and, subsequently, Atos Consulting who have produced a Technical Digital Roadmap in November 2016. Agilisys is the Council's strategic partner for ICT. In total £21.5m has been identified as the capital cost for ICT over the next three years to cover key work streams such as:
 - Network Transformation Business Case
 - Migration to the Cloud and Office 365 Phase 1
 - Desktop transformation
 - Tactical Projects
 - ICT Centralisation

There are high level Business cases in development for these projects but these are not sufficiently detailed to support the proposed level of investment. We would expect to see detailed business cases with a clear statement of costs and benefits.

The Council has a number of corporate plans as well as service plans for directorates and specific service areas. The two main plans are the Local Plan which, at the time of our review, was out for consultation. The Council's Strategic Plan sets out the two key Priority Areas and the Enabling Objective of a Transformed Council. For 2017/18 the budget has been aligned with the delivery of the corporate priorities and the supporting objectives. corporate objectives.

Statement L5 looks at the way financial management expertise is used in strategic decision-making.

Effective financial management requires core finance staff to be influential in decision making processes from the Cabinet and Corporate Management Team down and through into the Service areas. Our evidence from survey participants and interviewees suggest that although finance staff are involved in the business areas' strategic planning and decision reporting their influence over planning and budgets is limited and at times ineffective.

Successful influencing requires leadership qualities, individuals who are proactive champions and drive transformational change based on a robust understanding of the business of the organisation. Good leaders can persuade 'naysayers'. Leadership qualities require encouragement and support to develop. The majority of our survey participants suggest that the organisation does not develop leadership capability and we will return to this theme under the People Section below. However, we received a lot of comments on the effectiveness of Finance and some of the more telling quotes are set out below.

With regard to staff development and recognition two participants commented that:

"LBTH absolutely fail to recognise or take into account previous skills and experience from outside of local government... the failure to recognise previous skills and experience is frustrating and the attitude that they will only talk to one grade up and one grade down is archaic"

"Employing staff with the appropriate level of financial acumen is important to ensure that the Authority receives the best advice that it can obtain on financial matters"

On the effectiveness of finance input to budget setting and business cases we received the following comments:

"Too many business cases are manipulated to fit a desired operational or financial outcome rather than based on realistic and validated figures"

"Contractual arrangements models do not have sufficient finance involvement that allow to properly assess the costing, saving opportunities and future financial implications. The analysis is based on available budget as opposed as service driven."

"The biggest issues around budget setting are that there is no transparency around corporate recharges or central costs. Cost centre managers are given a figure for corporate recharges that is not explained they cannot change and does not relate to the number of staff they have or service delivered. Similarly a set amount is taken for building /utility costs which was raised a couple of years ago when the central system was set up. Managers have no idea how this relates to usage."

In terms of potential improvements to current arrangements we received the following comment:

"Business cases and justifications are always asked for when making either savings or investments, but they're not always as robust as they could be for a number of reasons:

- a lack of understanding of the full implications of a proposal, which obviously makes it difficult to assess the full financial implications - especially long term;*
- inadequate tools (cost benefit analysis - CBA) available that support the full exploration of, particularly long-term, impacts;*
- time constraints that make it impossible to develop effective CBA tools for a particular piece of work.*

Developing effective CBA tools for various analysis needs is a necessary investment itself. Having said that, sometimes whether or not the decision is made, particularly whether or not to de-invest in something, is driven by external factors - mainly the need to make savings - and so a robust CBA of the long-term impacts makes little difference, other than to underpin a political narrative (still needed through)."

3.9 Leadership – enabling transformation

<p>Enabling Transformation</p>	<p>L6</p>	<p>The organisation’s leadership integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.</p>	<p>2.0</p>
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For the transformation style there is one statement covering the integration of financial management approach and resources driving the change agenda. The score here is slightly below the average for organisations we see.

This statement considers issues such as performance and cost measures or risk. It is recognised that for some organisations with robust internal controls, the ability to stimulate transformational capacity can be difficult by their inflexible nature which restricts transformational capability. A feature of transformational capability is the ability to look at alternative (often radically different) delivery models.

The Council’s new Outcomes Based Budgeting approach is designed to look at different ways of delivering the required outcomes for less money. It focuses on service delivery rather than simple cost reductions through “salami slicing”. The new process has not been applied consistently in 2017/18 and there are still large gaps in benchmarking data.

The Council is also seeking ways to transform the organisation through the new Workforce Strategy 2016 to 2021. This is designed to introduce new ways of working but this will only be possible if the HR strategy links to the Asset Management and ICT Strategies. The latter is very high level at the moment and there is an absence of detailed business cases containing costs and benefits. Similarly, the asset strategy is not reviewed from a corporate perspective although there is a commitment to relocate the Town Hall to a new building in Whitechapel. All of the above are also reliant on the transformation of support services including the finance function. Early indications are that the Council is suffering major problems arising from the recent reorganisation of this function. We will return to this in more detail in the People Section below.

3.10 People – delivering accountability

The people dimension traditionally attracts low scores in the CIPFA FM Model assessment exercise and LBTH is no exception to this trend.

Delivering Accountability	P1	The organisation identifies its financial competency needs and puts arrangements in place to meet them.	0.5
	P2	The organisation has access to sufficient financial skills to meet its business needs.	2.5

For the Delivering Accountability style these two statements cover the financial competencies required by the organisation and the skills that match these needs. Statement P1 considers the organisation more generally, and statement P2 looks particularly at finance staff. Although Statement P2 exceeds the average of other organisations we see there is a significant difference between the two scores.

Statement P1 anticipates the use of frameworks that identify the financial management competences needed at different levels of responsibility throughout the organisation. Many public bodies now formalise this need, combining a framework of general behavioural competences for all employees outlining organisation standards for how individuals should work, with a more tailored set of competences for specific functions or roles. An example would be the 10 common Civil Service competences framework used in tandem with the complementary Civil Service professional competency frameworks. Tailored competency frameworks define the integrated knowledge, skills, judgment, and attributes that individuals need to carry out a specific role/perform a specific job effectively.

Competency Framework

During the course of our work we have been unable to identify a council-wide financial competency framework. However, we have seen individual job descriptions that refer to the need for financial management capabilities for a specific post. The Council does not have a framework that includes specific competences for financial management as envisaged by the FM Model.

Roles and responsibilities for financial management are defined in LBTH's Financial Regulations for all relevant posts. There is also a scheme of delegation. However, this is no substitute for a clearly defined competency framework that is backed up by training and accountability. These are themes that we return to below.

A critical issue relating to the use of professional competency frameworks is in designing the structure of the role and job outline, which are undertaken by service managers. Job descriptions used in job adverts are built from this basic information. In addition competency frameworks are helpful in the identification of training needs. For example, the Council recognises a requirement for all officers who have responsibility for a budget to have financial awareness training and that they shall attend formal training, and that such training is compulsory. From the interviews that we conducted and from the survey comments it is clear that there are shortcomings in the training provided in that:

- Training on Agresso was carried out when the system was introduced in January 2014 but it was very rushed

- Repeat training sessions have not been arranged so new joiners are not trained properly on the system
- The training that is available is on-line and although it is required before using Agresso it is very often circumvented e.g. admin staff complete it on behalf of managers
- Managers do not understand how to use the "self-service" aspects of Agresso especially the budget monitoring and forecasting tools

Comments here from our survey include:

"Whilst having experience of managing budgets is often included in job descriptions there is to my knowledge no formal testing of managers' competencies in this field. Training is generally only given on how the Agresso system works - and that is very basic."

"While I now have a delegated budget for my area the only training I have ever received was a two hour workshop on how to use and upload the Agresso spread sheets on line and on a monthly basis."

"There is a certain amount of ambiguity and lack of direction in regard to the requirement for training and qualifications. This ought to be more clearly defined."

"Whilst the majority of managers are sufficiently trained, skilled or have experience in financial management for standard budget monitoring against service cost centers, more complex financial management skills required for contract management are not adequately developed. Managers that have to oversee the financial complexities of contracts (such as surplus share arrangements, compound interest, differing tax regimes and different types of indexation) are not trained or developed to have the skills necessary to adequately interrogate accounting information provided by contractors, which can result in the Council not providing sufficient challenge to contractors that provide services on our behalf."

"There is not enough emphasis put on ensuring that people have the correct skills to manage budgets. I've never seen it being a specific target (i.e. "...within a % of budget..") in appraisal documents, and am not sure this would actually help. There are several factors that make it difficult in our service to manage: lack of skills amongst project managers and their assumption that someone else will do it - measures have been put in place to ensure individual projects are more effectively managed; multiple funding streams; limitations of Agresso to articulate multiple funding streams (possibly user error); constantly moving goal posts in trying to achieve savings; too many cooks stirring the broth (if you'll excuse the metaphor); a lack of clarity within the Budget Book, which seems to be used as vague guide rather than a definitive outline of allocated budgets (GF in particular)."

We could find no evidence that LBTH has carried out a training needs assessment. Given the ease with which the current “compulsory” training can be avoided we doubt whether a TNA would have a great deal of impact without supporting mechanisms to ensure that staff do undertake the training and that follow up assessments are carried out to assess how effective it has been. For example, many Civil Service organisations also carry out skill audits to build a skill database covering all employees to allow skill sets and experience to be matched to specific urgent projects or internal vacancies before turning to recruitment agencies or similar. As one manager put it:

“As a holder of one of the smaller budget areas in the Council. I have received support from finance colleagues to understand budgets and how to manage them. There is also reference in my job description to the requirement to manage the budgets. There has also been certain training available and there is an opportunity through the PDR process to seek further training. However, what is probably lacking is the formal focus in ensuring the above happens and ensuring the skills are there. Managers are busy and have lots of demands on their time and unless this is pushed it probably doesn't always reach the front of the pile of things that need doing (e.g. the training aspect).”

The last two questions for P1 consider: the finance skills and experience Finance staff expect of managers; and whether managers consider finance staff have appropriate skills and experience to support them in financial matters.

For the first of those two questions, 46% of the finance staff in our survey either did not know or did not agree that managers had sufficient finance skills and experience; only 24% of finance staff in our survey thought managers had some of the skills/experience required. For the second question, 42% of managers agree that finance staff have the appropriate skills and experience to support them while a further 41% partly agreed.

Statement P2 assumes the presence of a competency framework, but this time for finance staff to identify the technical competences needed at different levels within the Finance function. Job descriptions reflect the requirements for specific roles/posts (63% of our survey participants agree or partly agree with this idea). Somewhat fewer survey participants agree (45%) that such posts are filled by suitably qualified and experienced accountants. One comment suggested that the finance function was helpful but hindered by other organisational issues:

“Finance staff working with our service are good and helpful, but I think issues are created by a lack of clarity in the confusing systems and by the constantly moving goal posts of savings requirements, restructures, approval processes... Staff have too much work - for example, the need for financial concurrents on reports going to CMT/MAB, etc. is high volume work that requires more resources if Committee deadlines are to be met.”

Training and Development for Finance

As we referenced above LBTH has recently restructured the finance function placing much greater emphasis on the role of Finance Business Partners within Directorates. We formed the view that this has led to a great deal of confusion over the roles and responsibilities of

finance staff viz a viz budget managers. The Business Partners are unclear about their role and about their relationship with the corporate centre. There is a clear need for additional training not least in the interpersonal skills required to support operational managers. At the moment, there is a strong feeling amongst managers that they are not receiving the support that they require from finance:

"Whilst Finance staff are helpful and supportive the majority of the financial management falls to service managers who are not accountants and or financial specialists. There is limited training, and the training that has been provided is not as effective as I would like, there is an expectation for service managers to be experts in several fields but what would be helpful is qualified financial staff who can assist with these types of queries."

It is also apparent that finance staff are sometimes regarded as "traditional" and lacking specialist skills

"Our Divisional staff are not finance driven as the team are not a finance team. However, creativity in policy and programme development requires a level of suitable finance experience. Finance colleagues are always knowledgeable and helpful and get the tasks completed. Finance staff seem to fill the role of traditional accountancy and management accounts. The financial climate requires a degree of specialism in certain aspects that current staff lack."

In terms of future anticipated requirements for technical financial skills, 38% of our survey participants agree or partly agree with the idea that finance staff demonstrate technical financial skills required to meet the organisation's anticipated requirements, with a further 35% agreeing in part.

Staffing

In response to the question on whether posts that require recognised professional skills, knowledge and competencies have job description and person specification that reflect these requirements 63% of respondents agreed or partly agreed. In responding to the question on whether or not these posts filled by suitably qualified and experienced accountants only 45% agreed or partly agreed. When asked whether or not the organisation avoids over reliance on temporary staff 65% said no or don't know. The following quotes were received:

"As a borough we rely very much on consultants who can be classed as temporary staff, rather than training internal staff to take on the work of a consultant."

"As much as this can be sourced from external organisations, investment in existing staff may be in the long run more efficient."

Staff said to us that following the last restructuring of Finance in January 2014 there had been no follow up review to test the effectiveness of the new structure. The key lesson here for LBTH is that there needs to be a full review of how well the new structure is operating and appropriate remedial action taken. Although it may seem early to be carrying out such a review there are clearly gaps in knowledge and expectation on the part of both finance staff and budget managers.

3.11 People – supporting performance

Supporting Performance	P3	The organisation manages its finance function to ensure efficiency and effectiveness.	1.0
	P4	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.	1.0
	P5	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	1.0

The three performance related statements cover the assessment of the effectiveness of the finance function, finance support on key decisions, the enforcement of accountability and the degree of diffused financial management. LBTH scores below average on all three statements.

Service standards

An initial supporting question for P3 tests the extent that the finance function is performance managed against standards and targets (for both Finance and for the client in relation to Finance i.e. ‘reverse indicators’), and regularly monitored and reported. LBTH does not have a service level agreement for the Finance function as a whole with which to measure performance. We would recommend strongly that an appropriate SLA should be put in place particularly to support the role of the Business Partners. We received very few comments on this topic and those we received suggested a lack of knowledge or interest in SLAs

We believe that Finance’s profile can be raised through enhanced transparency. There are benefits in actively communicating the performance of the Finance function, in terms of meeting targets and/or performance standards, as well as in managing the costs of Finance itself, to raise the profile of Finance. The costs of the Finance function should be of keen interest to managers in service areas that receive re-charges for central functions, and if the news is good then re-charges are more likely to be understood.

The current Finance system, Agresso, is not well integrated with the other feeder systems, and the coding structure makes it difficult to prepare user friendly reports. The system was intended to be self-service for managers, but it is not user friendly. In the interviews we found widespread dissatisfaction with the budget monitoring and forecasting tools in Agresso. In many cases the basic reports were supplemented by the use of Excel spread



sheets which were too complicated for non-finance staff to understand. We will discuss this further in later sections of this report on processes. The consequences of weaknesses now presented by this system is that Finance staff carry out extensive data manipulation that is then uploaded to Excel to work around system deficiencies. Such extra work, alongside some duplication of processes and actions, places extra pressure on Finance staff and diverts them from activities that would add value to the organisation. It also imports additional risk of error. We also noted other areas of manual intervention which we will return to later in this report.

As far as we can ascertain only limited steps have been taken to assess service quality and costs. Although Finance is a member of the CIPFA Benchmarking Club the reports that we have seen do not contain all the information required to carry out an assessment of the cost and effectiveness of the function. This suggest that, although the Council is paying for the service it is not making good use of the information potentially available.

Recruitment and development of good quality finance staff will be vital to a future high performing Finance function. LBTH's draft workforce strategy does not include data with corresponding costs, risks and scenario analysis for different options, which we would normally expect of such a document. The draft strategy discusses has a lot of gaps into which performance measures and targets can be inserted but there is a complete absence of any numbers in the Workforce Strategy document that we have seen.

In respect of P4 the FM Model tests the effectiveness of Finance Business Partnering arrangements. We have already noted above that the Business Partnering role is new to LBTH and that there are a lot of teething problems with the way in which it is operating currently. This is reflected in the low percentage of respondents saying yes to the following specific questions:

- 40% - the finance function supports budget holders and policy makers and adds value through a finance business partner
- 28% - the Finance function adds value through the BP structure;
- 35% - BPs demonstrate the technical and interpersonal skills, and organisational awareness, needed to meet the current and future BP requirements;
- 37% - BPs are accepted as part of the business unit staffing and an integral part of current and future business decisions;
- 28% - BPs provide strong challenge and support on Value for Money and performance; and
- 36% - analysis of financial implications in decision reports by Finance staff are reliable, comprehensive and robust.

The above results were confirmed during the interviews that we carried out both with budget managers and with members of the finance community. The following quotes from the survey respondents confirm this view:

"The level of finance support that I have is fairly low level in terms of normal budget management and posting."

"There is little, if any, communication from business partners."

"My personal experience is good and bad. However, overall, I am not sure finance staff understand the business well enough in order to challenge and rely upon officers responsible for that area of business being able to interpret / analyse / comment upon financial implications and options."

"I work on projects that I would expect more contribution from finance business partners in the ways you suggest, but in my experience this is lacking. This is not entirely down to finance business partners, rather how the organisation goes about these projects and team roles and key stakeholder engagement activities. (Everyone seems too busy to want to commit themselves)."

Some of the current finance business partners are quite competent but the situation is not consistent across directorates. The current structure does not encourage cohesion.

My only point really is that sometimes finance officers can struggle to explain exactly how the systems work in relation to my budget and sometimes it takes a good while to sort out minor issues. I generally feel these are more system problems than staffing problems but it may be that the officer doesn't have the right knowledge of the system.

Clearly a good deal of work is required to assess the current issues with the Business Partnering arrangements and to take swift remedial action.

LBTH also scores below average for Statement P5. Here the Model considers financial literacy within the non-finance community, accountability and delivering services cost effectively. The latter point is important for LBTH given the requirement to find £58m of savings over the life of the current MTFS. Non-finance staff require training, tools and support to enable them to operate effectively.

Financial literacy and performance

For many organisations demonstrating strong finance skills and experience by the way in which decisions are taken at the Corporate Management Team level, sends a clear message down through the organisation. It is key to achieving successful transformation in service delivery and meeting budgetary challenges. Only 29% of respondents agreed that this is the case at LBTH. A further 27% agreed partly.

The position is reinforced by the "yes" responses to the following statements:

32% - the organisation provides clear documentation, support and guidance, so that managers who are budget holders understand their responsibilities and own their budgets

37% - managers with budgets or other financial management responsibilities have clear performance and financial targets

30% - these managers' targets include measures of cost effectiveness, such as savings targets, performance improvements, etc.

As we have indicated in earlier sections of this report work needs to be done to implement an effective way of working following the restructuring of the finance function. Particular areas to address include:

- Definition of roles and responsibilities with respect to financial management. This applies not only to the relationship between budget holders and Business Partners but also between Business Partners and corporate finance
- Clear objectives and indicators for budgets, projects and individuals in some cases; absence of an agreed performance framework
- Drafting of a clear SLA for the delivery of the finance function
- Plans and strategies are either out of date or incomplete e.g. Asset Management Plan, ICT Strategy and the HR Strategy
- interviewees stated that there is a significant variance in the quality and depth of support across Business Partners which needs to be addressed through training

The following comments from survey respondents are illuminating with regard to the perception of the corporate centre of the Council:

"These questions suggest that there is a rational resource view at the centre which I do not perceive. The budgets I have inherited were chaotic, not geared to providing and supporting efficiency rather just seeking to explain expenditure at the end of the year rather than getting more bangs for the buck."

"Whilst managers may produce business plans to mitigate financial risks / deficits, often decisions are taken by members not to instigate financial decisions which may be politically unpalatable. Decisions taken for political reasons often leave managers in a position of budget overspend or having to cut in other areas to accommodate the impact of a political decision with a negative financial impact. This also needs to be taken into account when considering manager accountability for their budgets."

Accountability

Key to accountability is to have targets against which performance can be measured. For budget managers there are essentially two elements to this with a need for both:

- Clear performance and financial targets; and
- Measures of cost effectiveness, such as savings targets.

Measurable predefined indicators and targets aid transparency for performance management. However, our interviews suggest that the degree to which managers are

held accountable is limited and that there are no real sanctions for poor performance or of non-compliance with corporate financial standards. Particular areas of concern that we noted cover the following:

- Monthly forecasting returns are not taken seriously by budget managers. It is often left to finance to do the returns
- There is an attitude of complacency brought about by the easy availability of money in the past. The new budget cuts are starting to have an impact but it is early days so far. This has led to Business Cases not being very robust around benefits and savings
- If managers fail to comply with financial requirements there is no sanction against them by senior managers. We found one exception but this seems to be a general problem
- There is an attitude that "if it has a £ sign then it is finance's responsibility"
- There is a feeling that there is a lack of direction and leadership on financial issues both from the service directors and from the corporate centre
- There is a lack of "buy-in" on financial management from budget holders
- The overall view is that there is a lack of accountability for financial matters in general and budgetary control in particular

Our findings are borne out by the results of the survey, in particular statements 5 and 6 as follows:

20% (25% partly) - managers at all levels are held accountable for performance and financial outcomes, with meaningful consequences for their appraisal

18% (21% partly) - managers at all levels are held accountable for the value for money implications of their decisions, with meaningful consequences for their appraisal?

The following comments from the survey are relevant here and support the view that there is a general lack of accountability:

"I can only comment on my own area of work; I have monthly budget monitoring meetings with our Finance Officer and closely monitor budget performance. However, since losing the dedicated finance team in we no longer have regular service-wide

financial reports delivered to the Senior Management Team so have lost oversight of the overall performance of the service outside of my own area”

“Again my experience is limited here but in relation to what I have seen there is good awareness of the need to be financially efficient and robust and that message is relayed regularly but I’m less sure of the support available. I’m not aware of any guides I can use to help my own efficiency assessments and I’m not aware of specific support to help me in that way.”

“There is regular dialogue between managers and finance staff but room for improvement in terms of the quality of this dialogue. Currently it tends to be focused simply on the mechanics of completing monthly budget forecast reports”

“My view is that we have some way to travel before managers across the organisation understand their budget management responsibilities and the consequences for them and the organisation of not giving these responsibilities due weight.”

3.12 People – enabling transformation

Enabling Transformation	P6	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.	1.5
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The transformation statement covers the extent to which financial management capacity and resources are capable of driving transformational change. The score for P6 meets the average for organisations that we see.

This Statement expects finance staff to have a wider range of skills and experience than has traditionally been the case. At this transformational level there is an expectation that finance will have a detailed understanding of the way the organisation operates so that appropriate advice can be given. It also expects knowledge of other organisations and different ways in which financial management processes can operate. Above all, this requires high-calibre staff. Contributors have mixed views on this idea with a high percentage of “partly” answers although there were more statements where the no answers slightly outweighed the yes answers. In terms of comments from the survey respondents two are particularly relevant here:

“Not convinced by the management who decided to spend lots of money to recruit external consultants and assumed no measurement has been taken to look into existing workforce to help on certain area for improvement. Perhaps Tower Hamlets management should prepare to take time to assess the overall staff force capabilities and involvement.”

“Finance staff do not seem to have a high status or be seen as influential in the areas I work in. My involvement with them is related to compliance checking and relatively simple financial comparisons.”



From our interviews we have also identified a common view that finance staff are not prepared for the transformation role that the Council now expects. The main areas that we identified for attention are as follows:

- There is a need for better communication between finance staff and service managers. There is also an issue over communications between finance staff in departments and those at the corporate centre
- Lack of willingness to change on the part of many finance staff. Some have been around too long and are “time servers”
- Some accountants are too technical in proposing solutions. They lack the interpersonal skills to communicate effectively with non-financial managers
- There appears to have been a focus on getting the revenue budget process right and, because of the abundance of capital, this has been treated less rigorously
- There was a number of concerns about the use and quality of Business Partners

Finance staff are not seen overall to have the status and influence that will result in a transformational impact on the organisation’s development. To support transformation the organisation needs to build internal knowledge and capacity in financial management to allow, if necessary or appropriate, the organisation to explore novel options. Our contributors were only partly convinced on this idea. Contributors do not agree that the organisation systematically learns from the best in class with only 6% saying yes. Nor do they agree that there are processes to identify learning points for the future from for example, projects or process changes with only 9% saying yes. As we discussed earlier in this report Finance has undergone a major restructuring and it is clear that the desired improvements in the performance of the finance function have not yet been realised.

Underpinning a move to successfully introduce innovation in financial management is to recognise innovative ideas through awards, rewards etc. We noted that the Council does have an award scheme but one survey respondent commented that:

“The organisational culture is definitely there to look for efficiencies but it is difficult to say it rewards.”

3.13 Processes – delivering accountability

For the Accountability style of financial management the score combines nine individual statements. This is typically one of the highest scoring areas of the FM Model across public sector bodies.

As there are so many statements here, they are most easily considered in a series of thematic groups dealing with different aspects of financial management. Each group is introduced by a series of scores.

Delivering Accountability	PR1	Budgets are accrual-based and robustly calculated	2.5
	PR2	The organisation operates financial information systems that enable the consistent production of comprehensive, accrual based, accurate and up to date data that fully meets users' needs.	2.5
	PR3	The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g. creditor payments, income collection, payroll, and pensions' administration).	2.5
	PR4	The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.	3.5

The first four delivering accountability statements deal with foundational requirements across annual budget setting, transactional finance, treasury management arrangements, as well as integrity and performance of financial systems. The scores for PR 1, PR2 and PR3 meet the average; while the score for PR4 exceeds the average for all the organisations that we see.

The first statement PR1 tests the question of whether LBTH's budget setting process is robust. This would typically mean that its construction would be: integral to the corporate medium term financial plan; be founded upon operational service planning objectives, within a 'bottom up approach' formulation; and incorporates, where possible, aspects of outcome and/or zero based budgeting.

The budget setting process at LBTH is not accruals based. Budgets are incremental for day to day spend. In the past, budgets have not been zero-based nor have they incorporated activity based costing approaches; project budgets may be zero-based. Budgets are profiled, and Finance can and do redirect money to another budget during the year if managers release unspent funds.

For 2017/18 a different approach has been adopted in that the Council has introduced a system of OBB linking budgets to service outcomes rather than setting an incremental target. The results of our interviews suggest that the degree of success has been mixed. Some interviewees commented that the approach had worked well while others thought that the approach was still too incremental. Some areas have attempted to use comparative data and benchmarking but the extent of available data in year 1 of this



approach has been limited in some areas. To some extent the degree of success has depended on the skills and experience of the Business Partners in each business area. As we have noted already in this report those can be very mixed.

Generally, the respondents to our survey gave a fairly positive picture of budgeting although there were also some negative comments as we can see from the sample below:

"In general I think this area appears strong and is being strengthened too by better reporting and monitoring of agreed savings targets to ensure they are being met.I can't be sure on whether managers are fully involved in the budget setting process. I think we probably are but I'm not sure the level you are thinking is required. for example, I have meetings regularly looking at my budget and we monitor whether growth bids or savings bids are required but on the other hand I don't have a meeting to determine what my budget is for the next year. I just seem to be given a figure and then have to run with it."

"The budget system has been centre led and allows for very little initiative. The tools provided and budget reports are inflexible and unhelpful. There are some finance staff who will go above and beyond to help but I have never been so frustrated in any organisation as to trying to get my budget transparent. There is too much emphasis on out turn rather than process"

"Budget setting does not fully take account of variances - as a result budget issues can recur year on year. There is too much reliance on 'fixing' budgets in month 12 - rather than on addressing structural problems."

"I think we are stronger in this area although some of these questions are quite technical and I didn't fully understand them. There is room for improvement in involving managers. In my budget manager role Finance have never spoken to me about budget setting."

"I've answered 'partly' to a lot of these questions because whilst the will is there, there is often a lack of detailed knowledge around the cost benefit analysis (which need time and resources to effectively model), and then the needs of the organisation as a whole always takes precedence over the needs of a particular service."

The main issues seem to centre on the following:

- There is a feeling that budgets are still driven by the centre
- There is still a push to cap budgets rather than look at need
- A lack of profiling means that a disproportionate amount of expenditure occurs in month 12
- There is insufficient time and skills to look in detail at business cases

This mixed view of the budget process is also reflected in the answers to the survey statements. There was a relatively positive response to the statements on basic budget setting as follows:

56% - the organisation prepares its budget in accordance with its corporate objectives, strategies and medium-term financial plan

47% - forecast or actual budget variances and trends are reflected in the budget setting process

When the questions become more concerned with forward projections and trends the answers become much less positive:

40% - revenue and capital budgets are based on plans and projections about resource needs, pay and inflation, productivity levels, and income

39% - cost reductions, growth and savings options are identified and reliably costed as part of the budget process?

Our overall view is that the budget setting process is still "traditional" but attempts are being made to move to an OBB approach. This is being hindered by all the issues around the restructuring of finance that we identified above and by cumbersome systems.

PR2 assesses the extent that there are robust and modern financial systems in place which are properly supported, documented and maintained, that deliver effective financial data meeting user requirements that will assist optimal decision making.

LBTH currently uses Agresso for General Ledger, Cash Management, Purchase Ledger, Purchase Ordering and Budget Modelling modules. Agresso was introduced at the beginning of 2014. We have been told that the implementation was rushed and that the system has never been configured correctly. It has not been subjected to a post implementation review. Furthermore, staff were not trained properly in the use of Agresso and there is no ongoing training available to new joiners. Finance staff joining specialist areas will receive on the job training but the main problem relates to budget managers who have joined since Agresso was introduced. An e-learning application is available for budget monitoring and forecasting and, in theory this is compulsory. However, we understand that many managers circumvent the training by asking junior staff to complete it on their behalf.

As a result of the above there is a general lack of commitment by budget holders to the budget monitoring and forecasting modules in Agresso. During the course of our interviews we heard the same repeated issues with regard to financial management and the shortcomings of Agresso. In summary, we found that:

- Before Agresso was implemented there was a perception that the previous system was poor and this has persisted with Agresso. The main problem continues to be with budget managers and forecasting. They see this as a finance function and

hence they feel that they are not equipped to do it. We were informed that managers will ask others to sign into Agresso on their behalf to do the forecasts.

- This is partly due to the fact that Agresso was designed around an organisation structure that has never been implemented and hence the system is not fit for purpose
- We were also informed that although Agresso can allocate a code based on a description administrative staff will often over-ride the suggested code. This occurs at the point of requisition where administrative staff are told by their line managers which code to use. Over 1000 people have access to the requisition part of Agresso which causes a major problem
- Although managers have a self-service access to Agresso and can generate their own reports they still fail to complete forecasts. We heard complaints that it is difficult to extract enhanced information from Agresso. No one is asking managers what they want and they are not articulating it. There is a user group but, apparently, no one turns up for it. Business Partners used to hold a regular forum which used to meet weekly but then lapsed to quarterly. There are monthly finance meetings but they are for wider issues and not just Agresso
- Perhaps the main system issue is in the way Agresso is structured. User access is role based within cost centres so if a centre is closed it affects access and limits functionality for users
- Business Partners are able to write their own reports and as a result there is a lot of repetition. There are some basic corporate standards but they are only for the simplest reports.

Looking at the survey responses to the "Yes" answers to statements about the general ledger were generally very low with a high percentage of "don't knows".

27% - the financial system uses accrual information in an integrated and comprehensive way

20% - financial systems provide management information (e.g. commitments, unit costs, trends, and expected variances) without the need for re-keying data or extensive manual adjustments

23% - managers are equipped with the tools and skills to use financial systems effectively and to access the information they need

13% - users' needs are regularly reviewed to ensure that financial systems remain 'fit for purpose'

18% - finance staff and managers rely on the formal information systems rather than using separate spreadsheets

Comments on the reporting function of the financial system:

"We have a system to identify different project costs in our ledger. The problem is mistakes occur at inputting level so too many errors and recodings are required to maintain the system"

"I sometimes think that computer based systems become our master even though they may start life as our servant. Often there is a need to compile box after box of information just because the system demands something in box before it moves on"

PR3 reviews the operation of transactional financial services. An aspect of this is performance and internal controls. A feature of such controls would include the assessment of the sufficiency of performance monitoring and reconciliation thereby enabling LBTH to be able to place sufficient reliance on such transactional services to be effective.

Operating Transactional Financial Services

LBTH has documented policies and procedures for transactional financial services; we are not aware of the extent to which they are reviewed and challenged. Although Financial Regulations are clear about the requirements for financial control we have reservations about the knowledge and awareness of the regulations amongst non-financial managers and we have referred to this above.

Finance Performance Indicators are used to monitor performance for transactional financial services in terms of timeliness, accuracy and efficiency. Targets are set for income collection that are monitored, reported and acted upon. Cash and bank positions are reconciled regularly. There is a cash flow model which is incorporated into the MTFS and reported to members for approval as part of the budget pack. Supporting this area are the findings of Internal Audit which provides assurance on controls and the operation of the financial systems.

The Financial Transactions Team is responsible for the processing of purchase orders, invoiced payments, direct payments and accounts receivable. The arrangements for authorisation are typical of most councils i.e. authorisation of order, confirmation of goods received and authorisation of invoice. There are three payment runs per week. A large part of the team's work is the maintenance of the system for the creditors' address book, the matching of invoices and keeping staff details for work flow up to date. In addition, for accounts receivable, the team maintains all the invoice information in case recovery action is required. The team works very closely with the systems team which is responsible for the maintenance of Agresso. Where an issue cannot be resolved by this team it is passed to Agilysis.

From the results of our interviews we are aware of a number of issues in relation to transactional services including the following:

- Matching of orders and invoices – invoices are sent directly to a processing centre in Slough where they are scanned onto the system. The invoices are then

matched with the orders. However, the system is not very effective and rejects are sent to an E-Queue system to be matched manually. Currently 75% of invoices are matched manually. There is also a problem with schools' catering invoices in that there is a high volume of duplicate payments

- Maintenance of the workflow system – the payments system uses workflow to push invoices to the appropriate member of staff for certification. However, there is a problem with staff turnover in that when a member of staff leaves the e-mail address is left open for 90 days. Until the account is closed there is no automatic way of informing the AP team that an invoice has not been certified so it is followed up manually by the Financial Transactions Team. We understand that HR is working on a solution for this
- Staff responsibility – when an invoice is sent to a member of the administrative staff in a directorate it is that member of staff's responsibility to ensure that the invoice is signed off by the manager who approved the original order. Unfortunately, members of staff do not take their responsibilities very seriously which leads to more delays in the system and additional work for the AP team. We understand that senior officers are the worst offenders and hinder the admin staff in carrying out their work
- Duplicate payments – there is an ongoing problem with duplicate payments. There is a high chance of these occurring usually due to the input of the same invoice with different reference numbers. AP spend a lot of time carrying out checks to spot these and recover over-payments. A report is run daily to try to pick up instances of duplicate payments

PR4 concerns the organisation's Treasury Management policy, and related Treasury Management practices. It questions whether there is an effective system for reporting on Treasury Management activity, the expenditure monitoring processes and the evaluation of budget variances, and the processes in place for balance sheet maintenance to ensure that reported balances are accurate.

As part of our work we have carried out a detailed review of the Council's Treasury Management Strategy. The results of our work can be summarised as follows:

CIPFA defines Treasury Management Activities as follows:

"The management of the organisation'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."

- We have reviewed the TMSS against the CIPFA Treasury Management Code and we are satisfied that the document complies with the Code. In particular we note that:

- The definition set out above is quoted in full in the Introduction to the TMSS on Page 2
- The three Key Principles set out in the Code are covered in the TMSS
- The TMSS also states on Page 3 that “the elements in the TMS cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance”
- The only exception from the Code that we noted was an explicit reference to Money Laundering

Responsibility for implementation and monitoring is delegated to the Section 151 Officer, who also retains responsibility for the overall Strategy and, within the limits set by this Strategy, the flexibility to adjust the balance between borrowing and investments to meet changing circumstances. Scrutiny has been delegated to the Audit Committee prior to consideration by the Cabinet and adoption by Full Council.

Delivering Accountability	PR5	The organisation actively manages budgets, with effective budget monitoring arrangements that ensure ‘no surprises’ and trigger responsive action.	2.0
	PR6	The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	2.0

These statements cover critical budget performance monitoring and associated responsive agility, as well as how the balance sheet contributes to the effective management of the organisation’s assets and liabilities. The scores for PR5 and PR6 are lower than the average for all the organisations that we see.

In relation to PR5, the model assumes managerial accountability, accurate forecasting of outturns and prompt action when needed. Budgets are available to managers prior to the start of the financial year after they have been approved by full Council in February. We have commented in some detail above on the inadequacies in the budget setting and monitoring processes. The results of our interviews indicate that not all budget managers demonstrate a strong sense of ownership for budgets, because they believe they are imposed. Finance question whether Service Managers really understand what “ownership” entails. There is a lot of “handholding” from Business Partners.

A key task for the Business Partners is to set out the annual governance arrangements for the budget i.e. its strengths, weaknesses and risks. Some Business Partners feel that they are spending much more time on lower level tasks and that systems do not support finance

staff adequately. A lot of time has been wasted on sorting out miscoding and checking the accuracy of information. Although staff have been trained they tend to use any code for convenience and this supports our comments above regarding financial transactions. There is a lack of “buy in” and responsibility. Finance staff spend too much time firefighting and not adding value. More time should be spent on risk assessment and the assessment of growth bids. Senior managers need to take advice from the Business Partners but there is currently a feeling that they do not. There needs to be more discussion with finance so that there is enough evidence to justify growth bids and savings.

As we stated above there is a need for major cultural change following on from the restructuring of the Finance Function.

Capital

At PR6, the Model seeks to address processes for ensuring that Assets and Liabilities are recorded accurately in the Balance Sheet. A key line of assurance here comes from the opinion of the external auditors, which concluded that the Council’s accounts presented a true and fair view.

Our review indicates that there is a major problem with the way in which the capital programme is compiled in that Directorates produce their own capital programmes before they go to cabinet for approval. Corporate Finance is responsible for refreshing the programme and for quarterly reporting to the CMT and Council. Projects can be added in-year with delegated authority up to £250K. Projects between £250K and £1m need Cabinet approval while those over £1m require full Council approval. Financial Planning checks to ensure that projects can be delivered in terms of funding. At the year end the capital funding is allocated so there is assurance that capital expenditure is recorded accurately in the accounts.

Once approved capital expenditure on projects tends to be allocated in full to the year in which the project receives approval. The profile of projects will be changed each quarter where there is evidence of significant slippage. By the end of the third quarter all approvals are added and the list of indicative approvals for the following year is prepared. However there are two main issues:

- Directorates have cash to spend but do not spend it quickly enough against the budget due to a lack of accurate profiling
- Initial profiling is very inaccurate and it is all done within the directorates. Corporate finance take the figures as given without any real challenge.

It is the responsibility of project managers to reprofile budgets but they do not do this rigorously. The Business partner model is not working here and there is no challenge. As a result, all expenditure tends to be dropped into year 1. Although Financial Planning tries to adopt a challenging role and the section has issued instructions about the need to reprofile over more than one year. However, there is a lack of buy-in amongst Capital Programme Heads in the directorates and there is a need to change the culture here. In effect the Asset Management Working Group needs to exert more control. Project Managers sit on this group but they do not challenge each other. There needs to be much

more of a corporate approach rather than each directorate operating in silos as they do currently and we refer to this again below in our comments on the Asset Strategy.

Financial Planning prepares the Capital programme report which goes to members for approval. The report is part of the MTFS but it is at a very high level i.e. programme level and there is no scrutiny of individual projects corporately, particularly by Members.

As part of our work we have carried out a detailed review of the Asset management Strategy and our views are summarised below:

- The Council has an Asset Management Strategy that covers the period 2015 to 2020 and which sets out its Scoping, Principles and Priorities. The financial implications of this were updated in 2015 to reflect the financial implications of the July 2015 Medium Term Financial Plan
- One of the key principles of the strategy is that the strategic elements of the Council's portfolio are managed by the Asset Management Team. We found that there was concern over whether this was working in practice with some properties potentially being disposed of before consideration has been given at an appropriate level as to whether there could be a better corporate use of the property
- CMT has recognised the need to update the strategy to clarify the buildings required, costs and opportunities for more efficient use or disposal. This needs to be done with close working with the ICT and HR strategy work to ensure that a true corporate view can be developed. This should be underpinned by a Target Operating Model that ensures investment is placed in the right locations and that benefits are identified and then realised

Although there is a quarterly budget monitoring report for members it does not include the balance sheet. This was an area of concern raised with us by members.

The Model considers good practice to be reporting the complete balance sheet on at least a quarterly basis to Corporate Management Team, and the Cabinet. This does not happen in a way required by the FM Model.

Delivering Accountability	PR7	Management understands and addresses its risk management and internal control governance responsibilities.	2.5
	PR8	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).	3.5
	PR9	The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.	3.5

The first two statements here address key aspects of critical internal risk management and internal control arrangements together with more independent organisational scrutiny processes. The final statement assesses the effectiveness of financial reporting, including compliance with relevant professional and regulatory standards. The score for PR7 is slightly lower than the average, while the scores for PR8 and PR9 meet the average for the organisations that we see.

For PR7, LBTH has a Risk Management Policy Statement and a Risk Register. These documents are maintained by the Head of Audit and Risk Management. In terms of risk he uses a governance model to provide an overall assessment of where risks lie. He also interviews directors and service Heads each year to ensure full coverage of systems and to identify specific risks. He has identified CLC as a particular risk area (although this Directorate will not exist in the new structure). The Head of Audit and Risk Management maintains the Council's risk register and reports are produced on a quarterly basis for CMT which takes the issue of risk very seriously. The risk register is arranged such that each directorate maintains its own part of it and can access the document as required. Each Directorate has its own risk champion although some take their responsibilities more seriously than others. The register uses a system called JACAD. The system is designed to chase the champions to update the system on a regular basis and it operates on a self-service approach.

Internal Control

Moving on to Internal Control, LBTH has Financial Regulations and Standing Orders to enunciate the control environment and processes. By encompassing areas such as LBTH's responsibilities for collaborative/partnership arrangements Finance Regulations follow good practice. Overall the Financial Regulations appear to be comprehensive and in line with best practice arrangements.

Evidence in support of a strong internal control environment is provided by the annual audit letter from External Audit for 2014-15 which was free of weaknesses in the operation of internal controls. We only had access to the 2014/15 letter at the time of review as the

letter for 2015/16 and the audit opinion has been delayed due to the VFM qualification issues. However, we met with the external audit partner and he was able to provide an assurance that there was no material issue with the financial statements. He also referred to the general quality of working papers and of the ability of the Council's finance to deal with audit queries.

The internal audit function is led by an experienced Head of Audit and Risk Management. He produces an annual plan that is designed to cover all the key financial systems each year. There is a comprehensive Internal Audit Plan in place for 2016/17 and this was provided for our review. The plan was reported to the Audit Committee by the Corporate Director of Resources on 22 March 2016. The plan is risk based and it starts by addressing the 11 corporate risks identified by the Council. The plan sits within an overall Internal Audit Strategy that was approved by the Audit Committee in 2010. In terms of resources the plan provides for just over 1500 man days comprising 4 internal staff plus management supplemented by a team from Mazars which is procured under a framework agreement with the LB of Croydon.

Generally the Head of Audit and Risk Management is satisfied that controls across departments are working. His views on each major system are set out below:

- GL – there were several issues when the Council changed from JD Edwards to Agresso due to controls disappearing. The implementation was rushed and poorly planned. Internal Audit carried out a pre-implementation review with the External Auditors which concluded that the Council was not really ready for the switch but it went ahead anyway. He still has concerns about the payments system and the potential for over-payments. He cited one example of an overpayment of £750K although it was recovered subsequently. There was no bank reconciliation for the first year of the GL (2013/14) and there was a problem matching cash received with debtor accounts. He is of the opinion that Agresso is now working properly
- Payments – procurement and ordering systems are sound. There has been a minor problem with fraud on payments but due to human error rather than the system
- Payroll – generally sound although exception reports are not always actioned. As a result there can be significant budget variances on this heading. The key control of budgets in relation to established staffing numbers is unclear.

On financial control the work of internal audit supports the views expressed in the earlier sections of this report in that the Council has suffered some severe problems. Cash has been kept in reserves to help balance budget overspends. This has led to a culture of complacency with a lack of budgetary control. Budgets are balanced at the macro level but this hides a lot of variances in the detail. Monitoring at this latter level is weak. Financial regulations are very clear on the need for budget monitoring and control at Service Head and Head of service level. Budget holders should be held accountable but they are not. They need support from business partners but the support mechanisms are not always in place.

The Head of Audit and Risk Management provides an annual internal audit opinion in accordance with the Public Sector Internal Audit Standards. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended). This report is submitted for approval to the Audit Committee and we reviewed the report for 2015/16 submitted on 28 June 2016.

The report concludes that the Council has an adequate system of internal control which was in operation throughout 2015/16. The report is comprehensive and covers:

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

The following extract from the report is relevant:

"2015/16 Year Opinion

Internal Control

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

Risk Management

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

Compliance with CIPFA Code of Internal Audit Practice

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



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

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

- Internal Audit is compliant against the 11 code of the CIPFA code of Practice (applicable at the time);
- The Internal Audit Service has appropriate governance arrangements, internal policies and sufficient resources to enable an independent, objective and ethical audit to be completed in line with the code.
- That audit files contained sufficient information for an experienced auditor with no previous connection with the audit to re-perform the work and if necessary support the conclusions reached.

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

LBTH has an Anti-Fraud and Corruption Strategy, which appears to be comprehensive and up to date.

PR9 concentrates on financial reporting.

The financial accounts and statements for LBTH are produced in accordance with statutory deadlines but there have been delays in signing and publication due to the VFM qualifications which started in 2013/14 and which resulted in the appointment of Commissioners. As a consequence of this history the Annual Governance Statement for 2015/16 was only presented to the Audit Committee on 20 September 2016 so that it could be approved for signing by the Chief Executive Officer and the Mayor by the statutory deadline of 30 September 2016.

Supporting Performance	PR10	The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of strategic priorities and delivers a dynamic and effective business plan.	2.5
	PR11	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.	2.0

The first performance statement addressed the critical area of medium term financial planning and how financial strategy is underpinned by key funding assumptions, strategic service planning and analysis. The second statement tests the effectiveness of forecasting and the influence of such processes upon decision making. The scores for PR 10 and PR 11 are the same as the average of organisations that we see.

PR10 tests the strength of medium term financial planning at LBTH. As part of our review we have carried out a detailed assessment of the MTFS with the following results:

- We have carried out a review comparing its content and approach with the guidance contained in the CIPFA publication "Looking Forward - Medium-term financial strategies in the UK public sector"
- A detailed comparison of the contents of the MTFS with the CIPFA has led us to the overall conclusion that the MTFS document does pull together all the relevant factors in one place and it does inform decision making by members
- However, we have concerns over the process itself and the extent to which it offers a robust scrutiny of priorities. Our concerns are summarised in the bullet points below which summarise the key points arising from the interviews with staff

Our main areas of concern with regard to the MTFS are as follows:

- There is a general feeling that the approach to budget cuts has been fairly traditional and that the OBB process has not had a full effect
- The approach to savings has not been sufficiently analytical
- There is an attitude of complacency brought about by the easy availability of money in the past. The new budget cuts are starting to have an impact but it is early days so far. This has led to Business Cases not being very robust around benefits and savings
- The MTFS supporting strategies appear to have been developed in isolation from each other and we could find no evidence of a coordinated corporate approach e.g. ICT
- There appears to have been a focus on getting the revenue budget process right and, because of the abundance of capital, this has been treated less rigorously
- We could find little coordination across the various Departments to ensure the Capital programme in Departments is combined and aligned to the overall corporate priorities, particularly regarding asset disposals

Forecasting processes and reporting are dealt with in PR11. The majority of our evidence here comes from the results of our interviews and the scoring of the survey. With regard to the former the key points to emerge were as follows:

- On capital projects expenditure tends to be allocated in full to the year in which the project is approved. There is a perception that as long as the total cost of a scheme is requested then the profiling of the actual spend is a finance responsibility and not the service department so giving problems in the forecasting of spend. This leads to enormous slippage due to the lack of budget profiling
- There is a need for more corporate standard setting, particularly on financial reporting and forecasting. Although some basic standards have been set there is a tendency to re-invent the wheel. This applies to Business Partners and finance staff in general
- On financial input to reports there is a general feeling that finance are consulted too late in the process. They are asked for a view after the key decisions are made and they are not part of the decision making process when financial issues may have a greater impact on a decision
- Monthly forecasting returns are not taken seriously by budget managers. Finance staff are often left with the responsibility of completing the returns
- There is a prevailing view that there is a lack of accountability for financial matters in general and budgetary control in particular

With regard to the survey scores respondents agreed that the basics of budgeting and forecasting were sound. However, there were much lower scores around the scrutiny and challenge to budgets and this is reflected in the percentage of "Yes" answers below:

36% - base data used for forecasting considered is considered to be robust

24% - forecasts are based on a thorough knowledge of cost/income drivers and activity behaviours e.g. latest intelligence on tax yield/income trends, etc.

18% - the appropriate quantitative/qualitative techniques and sensitivity analysis are used within decision support modelling of forecasts

13% - assumptions are 'stress tested' and validated for risk and uncertainty

16% - the appropriate techniques are used and challenge provided to counter behavioural aspects of forecasting including optimism bias

3.14 Processes – supporting performance

Supporting Performance	PR12	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	1.5
	PR13	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management.	2.5

Both performance statements cover the extent to which arrangements to secure value for money are embedded within the organisation. The first statement considers the systematic delivery of value for money in ordinary activities, whereas the second statement tests the effectiveness of procurement commissioning and contract management in securing value for money. The score for PR12 is slightly lower than the average while the score for PR13 meets the average of organisations we see.

At PR12, the FM Model envisages a detailed plan of specific Value for Money improvements that LBTH intends to make (either as a separate plan or as an identified element of the budget).

In response to the drop in government funding and the need to find savings of £58m over the life of the current MTFS LBTH has introduced a new approach to budgeting for 2017/18 based on outcomes. We have referred to this earlier in this report and we have found that it has worked in parts of the organisation but some service areas are still using an incremental approach to budget setting.

The Council has also launched a transformation programme for the way in which services are delivered. Key to this will be an examination of how the Council’s spending compares with other boroughs. Support services will be expected to contribute over £30m of the £58m while, at the same time, improving the service provided to operational directorates. This will have a major impact in the finance function. The Council’s Strategic Plan sets out two key priority aspirations for the Council which have been arrived at following consultation with residents:

- Priority 1 - To create opportunity by supporting aspiration and tackling poverty
- Priority 2 - To create and maintain a vibrant and successful place

These priorities are supported by a third enabling objective of ‘a transformed Council that makes best use of resources and develops a culture of transparency and trust’ and it is this latter objective that will have the biggest impact on finance.



As part of the transformation of support services the Council has ambitious plans to introduce new ways of working which will be dependent on large scale investment. For example, the Council intends to relocate the Town Hall from its present site to Whitechapel. It also intends to invest around £25m in new ICT infrastructure. These large scale investments will enable the workforce to adopt new ways of working and become much more agile.

Given that the transformation and the savings will depend largely on staff efficiencies we would have expected to see details of the transformation plans in a detailed HR strategy containing objectives, measurable targets and costs and benefits. However, to date we have only been able to find a high level strategy entitled "Workforce Strategy 2016 to 2021". From our review of the existing strategy we would comment that:

- This strategy sets out the overall aims for the type of workforce and the way it will operate at a high level for 2021
- We have not been able to find any other documents that support this strategy document so there is a need to be clear on the Performance Indicators which are mainly blank at present in the document
- We could find little reference to the costs of developing this strategy between now and 2021
- We would have expected to see a clear plan which had costs and benefits plus performance indicators defined as a blueprint for the organisation to work to ensure that the strategy was delivered. There is also a need to be clear who is responsible and accountable for delivering the strategy

LBTH will need to address cultural and behavioural issues currently limiting opportunities available to achieve value for money. These issues relate to weaknesses in accountability for the cost-effectiveness of decision making and insufficient depth in "holding to account" for financial performance. Savings are identified at outturn, and high level aspirational savings targets and service options are generated within the annual budget setting process, but even so it is still difficult to identify fundamental savings and efficiencies across the whole of the Council. We accept that this is the first year of the OBB approach and we would hope to see a much more widespread use of comparative data in the 2018/19 budget cycle.

Statement PR13 explores whether LBTH is systematically pursuing opportunities to improve Value for Money through its procurement strategy, the contract procedure rules and benchmarking of services. We have reviewed the Council's Procurement Strategy and we are satisfied that the Council has adopted a sound approach. Although the processes and approach are in line with best practice there is a lack of "commercial awareness" or the need to adopt a "Business-like approach" across the Council. The main points arising from our review are:

- The Council procures approximately £345m per year that is seen as addressable procurement spend

- It has a Procurement Strategy and its performance against that strategy is reported in the Annual Procurement Report which outlines progress against seven key principles
- Positive progress is being made year on year on the targets for the key principles
- There is a Contracts Register and all contracts over £25k are procured through the Council's e-tendering system and, with a spend under contract of over 90%, we think the strategy is working
- The key issue arising from our review that we would highlight here is that, although Procurement can be seen as working, there is a general lack of commercialism within the Council. This may be because a lack of finance is not seen as a major issue at present. However, we believe that to build on the success of the procurement strategy there is a need to look to embed more of a commercial culture within the wider organisation

With regard to the final point on commercialisation the Council is aware of the need to develop a new Income Generation Strategy. Work on this has already started with the assistance of external consultants. The main points arising from the draft strategy are as follows:

- The new draft strategy sets out the overall aim and plan of action for the Council's new and emergent corporate approach to Income Generation
- The purpose of the draft strategy document is to set out a path to develop a detailed implementation programme on income generation by:
 - Determining the national and local policy drivers of the business case for change
 - Proposing a new corporate vision for success and underlying principles that aligns to the Mayor's objectives
 - Sharing transferable insights from sector good practice
 - Identifying possible new options for commercialisation to build on the Council's current activities
 - Understanding the governance implications for members and officers
 - Forward action planning to make these new opportunities a reality over the next 3 years
- The draft will be issued for consultation during February 2017

3.15 Processes – enabling transformation

Enabling Transformation	PR14	The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.	1.5
	PR15	The organisation’s financial management processes support organisational change.	1.0

The transformation statements test the extent to which financial processes contributes to improved outcomes through transformational change. The scores for both PR14 and PR15 are significantly lower than the average we see in other organisations.

These statements deal with testing whether financial systems and processes are radically reviewed as end-to-end processes to give Value for Money over the whole organisation and whether there is evidence that planned benefits from process re-engineering and change has delivered the benefits anticipated in the business cases and have provided Value for Money. The model tests whether performance information is used to prioritise areas for analysis and change, and if new services or ways of doing business subject to thorough business case analysis.

There are several different elements to PR14 as indicated by the range of supporting questions. The emphasis is on fundamental reshaping of financial management processes, which necessitates establishing the required outcomes rather than current systems and processes.

LBTH introduced a new General Ledger system, Agresso, in 2014. As we have noted earlier in this report the system implementation was managed badly and received adverse comments at the time from both internal and external audit. Although the initial issues over balances and reconciliations have been resolved there are still a number of problems with the way in which the system operates that require a great deal of manual intervention. Although we have referred to some of these issues elsewhere in this report we thought that it would be helpful to bring them together in one place. The main problems are as follows:

- Requests for changes to Agresso that go to IT are too complicated and the response from IT is poor
- A major problem relates to the processing of journals. Accountants, and some non-accountants, complete the pro-formas which are then sent to the Operational Accounting Team for processing. There is a high error rate on journals which means the team has to revert to the various operational finance teams to resolve the problems
- A particular problem relates to cash income and its subsequent allocation



- Matching of orders and invoices – invoices are sent directly to a processing centre in Slough where they are scanned onto the system. The invoices are then matched with the orders. However, the system is not very effective and rejects are sent to an E-Queue system to be matched manually. Currently 75% of invoices are matched manually. There is also a problem with schools' catering invoices in that there is a lot of duplicate payments
- Maintenance of the workflow system – the payments system uses workflow to push invoices to the appropriate member of staff for certification. However, there is a problem with staff turnover in that when a member of staff leaves the e-mail address is left open for 90 days. Until the account is closed there is no automatic way of informing the AP team that an invoice has not been certified so it is followed up manually by Jo's team. Apparently, HR is working on a solution for this
- Staff responsibility – when an invoice is sent to a member of the administrative staff in a directorate it is that member of staff's responsibility to ensure that the invoice is signed off by the manager who approved the original order. Unfortunately, members of staff do not take their responsibilities very seriously which leads to more delays in the system and additional work for the AP team. Jo claims that senior officers are the worst offenders and hinder the admin staff in carrying out their work
- Duplicate payments – there is an ongoing problem with duplicate payments. There is a high chance of these occurring usually due to the input of the same invoice with different reference numbers. AP spend a lot of time carrying out checks to spit these and recover over-payments. A report is run daily to try to pick up instances of duplicate payments
- Coding is a major issue. Although Agresso can allocate a code based on a description admin staff will over-ride the suggested code. This occurs at the point of requisition where admin staff are told by their line managers which code to use. Over 1000 people have access to the requisition part of Agresso
- Although managers have a self-service access to Agresso and can generate their own reports they still fail to complete forecasts. There is a view that it is difficult to extract enhanced information from Agresso. No one is asking managers what they want and they are not articulating it. There is a user group but no one turns up for it. BPs used to hold a regular forum which used to meet weekly but then lapsed to quarterly. There are monthly finance meetings but they are for wider issues and not just Agresso
- Perhaps the main system issue is in the way Agresso is structured. User access is role based within cost centres so if a centre is closed it affects access and limits



functionality for users. Business Partners are able to write their own reports and as a result there is a lot of repetition. There are some basic corporate standards but they are only for the simplest reports

- The recharges system is cumbersome and time consuming

One interviewee commented that Agresso is very labour intensive and that budget holders do not take responsibility. The system requires a lot of form filling just to change simple things. There is a huge volume of miscoding due to errors by administrative staff. Finance staff spend large amounts of time on correcting these errors. There is a need to get things right first time and eliminate waste.

With regard to ICT we have reviewed the ICT Strategy and would comment as follows:

- Our overall conclusion is that there has been underinvestment in ICT over the last few years and the Council now needs to make a major investment in making the infrastructure fit for purpose
- As a result the Council has completed two key pieces of work in the last year. It has worked with SOCITM who produced an ICT Strategy in June 2016 and, subsequently, Atos Consulting who have produced a Technical Digital Roadmap in November 2016
- Agilisys is the Council's strategic partner for ICT
- In total £21.5m has been identified as the capital cost for ICT over the next three years to cover key work streams such as:
 - Network Transformation Business
 - Case Migration to the Cloud and Office 365
 - Phase 1 Desktop transformation
 - Tactical Projects
 - ICT Centralisation
- There are high level Business cases in development for these projects
- The business cases which we have reviewed contain very little detail on the financial benefits that will be achieved by the investment
- Although there is a Technology Roadmap we could not find the financial investment equivalent of that map which showed what would be invested when, what the financial benefits (if any) would be and when they would come on stream so that a realistic budget profile could be compiled
- The estimates that are being used have been provided by Agilisys and are clearly marked as "indicative". They do indicate a capital spend on Cloud Migration and end User Computing of £13.4m in 2017/18. At this stage, for an investment of this size to be made from April 2017 onwards, we would have expected to see

comprehensive business cases with a profile of spend through the year(s) based on firm numbers where possible

- There has been a great deal of work on the ICT strategy but it is not clear to us who is responsible for the achievement of the benefits. We have not seen a Target Operating Model that pulls together the investment in ICT along with the Asset Strategy and the HR Strategy
- There is no clarity regarding the ownership or responsibility for the delivery of benefits
- We understand that there is a view that the Council needs to “play catch up” on ICT and we have not seen the contract that it has with Agilisys. On the engagement of a strategic partner, we would have expected to see refresh clauses in the contract so that the condition of the ICT estate kept pace with new developments.

For PR 15 - looking at the way the organisation’s financial management processes support organisational change, the starting point would be the extent to which those processes help the organisation understand the real costs of the current pattern of activity.

Achieving transformational capability is difficult for public bodies. Public bodies in the UK typically follow predetermined stewardship and governance arrangements. However, for such organisations the ability to effect transformational change is particularly difficult, especially in the short term, without sacrificing the inbuilt strengths and controls necessary in securing strong stewardship. Therefore the demonstration of the evidence required to satisfy the supporting question is difficult to achieve - does the organisation use agile methodologies for systems and other developments and do governance procedures provide an appropriate level of control?

Transformational change must carry with it some continuity for internal control and compliance with key procedures to ensure risks are mitigated. However, it is appropriate for LBTH to look at the control environment and compliance overheads to ensure that it is relevant and proportionate to risks during organisational change, and that it continues to add value. Heads of Service and Service Managers expressed concerns at the high costs of recharges for central services and the lack of transparency in those charges. Managers suggest that a transformed efficient Finance function should be able to demonstrate a reduction in such charges. This is an area that Finance must monitor carefully as transformational change begins and ensure communications are well designed and working.

3.16 Stakeholders management dimension

The CIPFA FM Model combines a number of stakeholder elements here, including the views of external stakeholders, on value for money, financial integrity, compliance with statutory and regulatory obligations and the ability to influence decisions on resource allocation.

Delivering Accountability	S1	The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations.	3.0
	S2	The organisation demonstrates that it achieves value for money in the use of its resources.	1.5
	S3	The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management.	3.0

The first statement examines the degree to which external stakeholders receive assurance on financial integrity from a number of sources including processes and publications. Financial impacts and factors that influence stakeholder confidence are key to this dimension. The second statement seeks to test the assurance provided to external stakeholders on the delivery of value for money. The final statement uncovers stakeholder engagement and the degree to which this relationship influences financial strategy and organisational priorities.

External Stakeholders

LBTH has experienced delays in the publication of signed accounts due to Value for Money qualifications of the external audit opinion. Despite that the accounts are published on time and there has been no major issue in relation to the financial accounts. External audit reports are free from material criticism on financial management.

Like many public sector annual reports and accounts these tomes are heavy to read for most individuals outside the officers of the organisation. LBTH's report explains the operational and financial performance using 'plain English', and as far as we can tell is transparent in its narrative and data presentation. Our contributors generally agree that the presentation of the summary accounts is intelligible and accessible to the non-expert user. The percentage of "Yes" answers to the statements on financial reporting are shown below:

41% - public accountability duties are discharged, e.g. statement of accounts published on time

37% - the annual report and accounts transparently explain operational and financial performance

37% - the organisation is able to report the achievement of its financial targets and budget reliability

28% - summary accounts are presented in a way that is intelligible and accessible to non-expert users?

Although these percentages may look low they are largely explained by a high percentage of "don't knows". The number of "No" answers was negligible. Respondents generally had little exposure to the annual report.

LBTH has appropriate, typical public facing governance mechanisms to underpin confidence for the sector – we reviewed copies of the Core Values and Corporate Leadership and Management Framework, the Annual Governance Statement, the Anti-Fraud and Corruption Strategy, the Complaints Procedure and a Whistle-Blowing Policy. Financial information in the form of budgets, strategies, senior leadership minutes are also available although some documents such as the Capital Strategy was out of date by some years. However, the senior management in finance were aware of this and the strategy is being rewritten currently. At the start of our work only the MTFs for 2016/17 was available but the final draft for 2017/18 became available during January 2017 on time for the current budget cycle. This document will be made public after approval by the Council in February 2017. Committee Meeting agendas and reports are available.

Our contributors are largely in agreement that the Council demonstrates robust fiscal discipline through publishing supporting documents such as the budget book on the internet. Although there was only a medium level of "Yes" answers there was a large proportion of "Don't knows" with a negligible number of "Nos".

Our survey participants agree that the organisation demonstrates compliance with statutory/legal obligations.

For S2, the score for LBTH is significantly lower than the global average score. The key area here is for LBTH to publish transparent plans for achieving Value for Money with targets and indicators, and reports of outcomes from those plans clearly demonstrating a holistic view to application of public funds. Until 2017/18 very little use had been made of benchmarking and comparative data including for the finance function. This is beginning to change but our sense from the interviews is that there is still some way to go.

In addition, the Council had a Value for Money qualification on its accounts for 2013/14 leading to the appointment of external Commissioners, by the government. This led to further qualifications in subsequent years. Although steps have been taken to rectify these issues the accounts for 2015/16 had not been signed at the time of our review. The Annual Governance Statement in the Annual Report sets out the steps that the Council is taking to address these issues. The Annual Report also has a brief description about how the Council achieves Value for Money but it is very brief.

A number of strategies are published which explain how relating activities can be directed to achieve Value for Money savings e.g. Procurement Strategy and Asset Management Plan. These documents are helpful to the readers but overall what is needed to demonstrate Value for Money is a corporate view linking all the plans/strategies together with specific objectives and finances i.e. Integrated Reporting, a holistic approach report

that can be used to identify synergies from the relationships between different parts of the organisation and different activities.

For S3, LBTH's score of 3.0 is higher than the global average that we see elsewhere.

The issues that are important to consider here are the approach LBTH takes to seeking views of customers and stakeholders about priorities, and that the organisation can demonstrate that it has responded to consultation in relation to its strategy and planning decisions. LBTH is clearly very active here. Our review of documents on the website and our contributor conversations strongly support this. LBTH is proactive in its conversations with communities and local businesses, seeking views, and building links with its external operating environment. During the course of our review we noted that the latest version of the Local Plan was out for consultation until the end of January 2017.

We also noted that the MTFP contains a separate section on budget consultation containing the following key points:

- On 6th December the Mayor in Cabinet received an updating report on the progress of the council's MTFP including specifically details of the consultation exercises that had been carried out with residents and stakeholders
- Since that time further consultation has taken place at a business breakfast meeting held on 2nd December 2016 which was attended by 48 representatives of the business rate paying community. In addition to hearing about the context for and the Council's approach to its 2017/18 budget participants gave their views on a number of issues
- The outcome from all of the budget sessions together with the outputs from both the residents and businesses online and survey has been analysed and used to inform the development of the Council's MTFP and budget strategy for 2017/18
- The Your Borough Your Future campaign will continue to engage and involve residents and other stakeholders in the design of key services as the Council's proposals are developed and implemented.

Such a high score here when other scores in this dimension, and the FM Model Matrix more generally, are rather lower suggests a need to re-balance efforts looking out with those required to look inwardly. We see a potential risk that by placing undue emphasis on discussions with external stakeholders senior management is raising expectations before achieving necessary improvements to internal quality of data/information, processes and delivery mechanisms.

4. Concluding comments

4.1 Survey completion

The electronic survey completion rate for this roll out of the CIPFA FM Model was 74.0% (which should be above the minimum level of evidence needed of 50%) with 179 out of 242 participants submitting data/evidence.

4.2 Interviews

The roll out of the CIPFA FM Model relies heavily on interviews (35) to cover specialist areas (such as internal audit, year-end financial reporting, and procurement) and to probe further into areas covered by the electronic survey.

4.3 Summary conclusion

LBTH is able to demonstrate a sound level of financial management capability with foundational delivering accountability and stewardship being secured through a competent finance function and supporting governance and assurance functions. Such strengths are typically associated with the more traditional stewardship aspects of financial management. There is some evidence of good practice across the organisation, particularly in the areas of financial accounting, internal control and strong customer focus. The organisation runs a finance function that has been subject to a recent restructuring with an evolving Business Partnering role, however fundamental re-shaping of the function has yet to take place.

Finance is not currently well placed to 'add value' in a way that would help drive the business towards transformational change. Whilst we would regard the Chief Finance Officer (CFO) as being highly effective, the CFO role is not supported across the wider organisation. There is a need for clarification of the role of the Business Partners as they are unclear about their relationships with operational managers and also with the corporate finance function. The ability to focus on finance is important, not only in the pure sense of financial reporting issues, but also in considering future strategic sustainability. The Finance function lacks balance between business as usual, financial strategy and transformational change activities.

A lack of ownership and accountability over financial performance by budget holders represents the most significant financial management challenge for LBTH. Financial challenge is not sufficiently robust, as a consequence of the competing demands and pressures on finance decision support. Performance management is not effectively discharged in the absence of an agreed Performance framework.

LBTH has launched a major transformation programme which is intended to make the workforce more agile and to change the way the authority is funded and run, and many of these activities here are innovative. In particular the introduction of Output \based Budgeting is to be commended. However, LBTH needs to do more to demonstrate that

VfM is within the 'DNA of the organisation'; a required significant shift in culture is yet to be achieved.

Financial planning and budget setting both have room for improvement. The Medium Term Financial Strategy (MTFS) is a good document that meets most of the requirements of the best practice model. However, we have concerns over the underlying robustness of the budgeting process. This is exacerbated by a lack of challenge by finance and by poor budget monitoring and forecasting on the part of budget managers. Enabling strategies that should be linked to financial strategy are either out of date or incomplete compromising the robustness of the MTFS itself. The risk is exacerbated by a lack of clarity on communications and uncertainty from the senior management level.

The Finance Function is not sufficiently influential and more support is required to develop leadership qualities to bring about a transformational impact on the organisation's development. The extent to which Finance can detach from data manipulation and add value is seriously constrained by the weaknesses in the current financial system, Agresso. Pushing against the move to add value is the constraint on Finance's ability to carve out sufficient time to explore user needs for a future enhanced financial system. The system is very susceptible to errors in areas such as miscoding and maintaining workflows. These elements require manual intervention which uses up a huge amount of finance time.

Service Areas have a limited clarity and understanding of what the role of Finance Services is. LBTH needs to develop a contract basis for Financial services, with standards and level of service defined, to strengthen clarity and understanding, which in itself will act to raise the profile of Finance in the organisation.

Business Partnering is in place and should be integral to business unit staffing and decision-making as well as providing challenge and support. Business Partners need sufficient 'standing/credibility' within the organisation. LBTH needs to strengthen wider commercial skills/attitudes and articulate a commercial strategy which is embedded within the DNA of the organisation. Roles and responsibilities for financial management are not clearly defined at LBTH.

A training programme for non-financial managers exists through e-learning and, in our opinion, LBTH would benefit by ensuring successful completion of this programme as a precursor for officers being considered as budget holders. At the moment it is too easy for managers to circumvent this "compulsory" training. There is a lot of "handholding" from Business Partners and core finance; the big shift in culture that is required is yet to come. Recruitment and development of good quality finance staff will be vital to a future high performing Finance function and to LBTH's successful transformation. The current draft workforce strategy needs to include data and targets to aid senior management's view of options available for the future. The use of a tailored competency framework for professional financial management will help here.

The current Financial system, Agresso, is not efficient. The system requires significant manual manipulation of data and this element of manual resourcing imports additional cost/opportunity cost and risk. The emphasis for successful transformation is a fundamental reshaping of financial management processes. The current financial system

is not going to help facilitate transformational change. Further work is required to understand needs of system users, and this may require a radical approach and, possibly, consideration of a new finance system.

Whilst LBTH is engaged in strong stakeholder consultation it may not be giving sufficient attention to achieving necessary improvement in the internal quality of delivery mechanisms, which will allow external expectations to be met in a timely manner and within funding constraints.

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Appendix 1 - CIPFA FM Model - Summary

The CIPFA FM Model was originally released in July 2004 and describes a model for best practice in financial management within the public sector. This is the fourth iteration of the FM Model. Version 4 has been specifically developed to incorporate the very latest best practice initiatives as well as the emerging financial management issues associated with the current financial environment. The Model recognises that using money well leads to more and better front-line services and that effective financial management in the public sector now requires financial responsibilities to be more widely diffused throughout the whole of the organisation.

Budget holders/managers therefore need to be financially literate and finance professionals need to contribute through challenge, interpretation and advice. Good financial management is no longer just about accounting for expenditure and demonstrating probity, but finance must be placed in the wider organisational context, in terms of how it supports the delivery of the organisation's strategic objectives.

The CIPFA FM Model is structured around three styles of financial management:

- **Delivering Accountability** – an emphasis on control, probity, meeting regulatory requirements and accountability.
- **Supporting Performance** – responsive to customers, efficient and effective, and with a commitment to improving performance.
- **Enabling Transformation** – strategic and customer-led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas.

The styles are intended to be progressive and it is expected that all three styles will be present in an organisation exhibiting best practice financial management characteristics. For example, accountability alone is not sufficient to enable an organisation to drive performance and to develop its transformational capacity and, conversely, performance or transformation programmes that are not founded in a robust approach to controlling and accounting for resources are unlikely to succeed.

The CIPFA FM Model is also organised by four management dimensions. These cover both hard edged attributes that can be costed or measured, as well as softer features such as communications, motivation, behaviour and cultural change. These are:

- **Leadership** – focuses upon strategic direction and business management, and the impact on financial management of the vision and involvement of the organisation's Board members and senior managers.
- **People** – includes both the competencies and the engagement of staff. This aspect generally faces inward to the organisation.
- **Processes** – examines the organisation's ability to design, manage, control and improve its financial processes to support its policy and strategy.
- **Stakeholders** – deals with the relationships between the organisation and those with an interest in its financial health, whether Treasury, inspectors, auditors, taxpayers, suppliers, customers or partners. It also deals with customer relationships within the

organisation, between finance services and its internal users.

A matrix approach is therefore used in the Model, combining the three styles of financial management and four management dimensions. The organisation's current financial management position is assessed through comparing its arrangements against 30 statements of best practice, with a set of supporting questions sitting behind each statement. The table below shows how the 30 statements fit into the Best Practice Matrix.

Table 1 – Management styles/dimensions matrix

Financial Management Styles	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Delivering Accountability	L1 – L3	P1 - P2	PR1 – PR9	S1
Supporting Performance	L4 – L5	P3 – P5	PR10 - PR13	S2
Enabling Transformation	L6	P6	PR14 - PR15	S3

Each statement is scored from 0-4 with half point increments, to establish an overall picture of strengths and weaknesses in terms of financial management, as shown in the following table.

Table 2 – How far does the best practice statement apply?

Score	How far does the best practice statement apply?
0 / 0.5 / 1	Hardly
1.5 / 2	Somewhat
2.5 / 3	Mostly
3.5 / 4	Strongly

The methodology used to undertake the review of financial management within LBTH is described in **Appendix 2**.

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Appendix 2 – review methodology

Introduction

The aim of the review is to form a view on the extent to which the statements of best practice in financial management apply to the organisation and the approach aims to gather evidence for this in the most economical way. Evidence was collected from three main sources: interviews, document review and survey, the balance from each based on judgement of appropriateness for purpose. For the interviews and survey, staff were segmented by financial management role (see survey groups below), with samples drawn from each key role.

The high level stages involved in the review are set out in further detail below.

Application of best practice statements

Assessment methodology requires contributors to the electronic survey to approach the scoring for their relevant best practice statements and supporting questions by allocating scores from 0-4 to each of the statements.

The approach includes the categorisation of five survey groups as follows:

Table 1 – Survey groups

Group	Survey group	Description
SG1	Strategic finance	This group would comprise senior finance staff at the core of the corporate strategic finance function and include deputy/assistant CFOs, chief accountants, senior corporate financial performance specialists, long term finance and funding specialists, special project investment specialists, technical financial reporting specialists, etc.
SG2	Operational finance	This group is generally made up from the corporate core finance function but can include finance specialists from devolved arrangements with operational departments/functions. Members would typically include group accountants, budget monitoring teams, departmental business partners and corporate transactional finance staff.
SG3	Service directors	This group is aimed at service directors/heads of service – the objective is to capture evidence on strategic financial capability from an operational non-Finance perspective at the most senior operational level. Such contributors would typically be members of the organisational corporate management team/Corporate Management Team.
SG4	Operational managers	Typically but not exclusively budget Holders. This group would include any operational manager that is empowered to make decisions consuming organisational resources that have financial implications. Such decisions are typically taken supported by

		management information or decision support advice provided by finance colleagues.
SG5	Board, Stakeholders and external contributors	The senior stakeholders group comprises the chief finance officer, Chief Executive/Permanent Secretary, board non executives, Audit Committee chairs and members, other external stakeholders or partner organisations, external audit representation and external supervisory representation – e.g. external auditor.

A selection of the most relevant statements and questions for each of the survey groups were determined and tailored accordingly. This “culling” process produces the most relevant application of the best practice statements designed to extract the optimal information from each specialised survey group. Benefits include relevancy and the minimisation of time exposure for participants and allowed a categorisation of evidence capture between:

- Document review/evidence.
- Interviews.
- Electronic survey.

Document review/evidence

An integral aspect of the review was the assessment of a number of key documents for the LBTH (including material specifically made available as part of this assessment process, as well as publicly available material). This served two main purposes; to enable the assessor to familiarise him/herself with the structure, processes and culture of the LBTH , and to confirm factual information relating to the best practice statements and supporting questions e.g. whether or not a specific policy was in existence.

Interviews

Interviews with 35 contributors were used to supplement the document review as well as substantiating the evidence generated from the survey. Interviewees were largely Members and Officers of LBTH (with a sample of finance staff and staff with financial management responsibilities), with additionally KPMG, the Council’s external auditors.

Table 2 – List of interviewees

Group	Survey group	Name	Job Title
SG1	Strategic Finance	Neville Murton	Corporate Head of Finance
		Dan Warren	Operational Accounting Manager
		Ekbal Hussain	Head of Financial Planning
		Jo Campbell	Financial Transactions Team Manager
		Kevin Miles	Chief Accountant
		Laura Lewis	Head of Financial Systems
		Zamil Ahmed	Head of Procurement
		Sean Green	Head of ICT
		Alison Jebbet	Corporate Capital Financing Accountant
		Ruth Ebaretonbofa	Corporate Capital Accountant
SG2	Operational Finance	Altin Bozhani	Senior Business Accountant Adult Services
		Angela Sherwood	Capital Accountant, CLC Resources Team
		Bharat Jashapara	Business Partner Children's Services
		Katherine Ball	Senior Business Accountant HRA & Capital, Regeneration and Development
		Paul Leeson	Business Partner for Regeneration and Development
		Renee Buffery	Business Accountant Regeneration and Development
		Sailesh Patel	Schools Finance Manager
		Steve Adams	Business Partner, Culture, Learning and Leisure

SG3	Heads of Service	Karen Sugars	Service Head for Adults Commissioning and Health
		Nasima Patel	Service Head Children's Social Care
		Shazia Hussain	Service Head, Culture, Learning & Leisure
		Somen Banerjee	Director of Public Health
		Mark Baigent	Assistant Director, Regeneration, Housing, and Economic
		Pat Watson	Service Head, Capital Projects Adults' and Children's Services
SG4	Operational Managers	Esther Trenchard-Mabere	Associate Director Public Health
		Ann Sutcliffe	Head of Asset Management
SG5	Stakeholders – Board, Audit, External Etc.	David Edgar	Lead Member Resources
		Will Tuckley	Chief Executive Officer
		Zena Cooke	Corporate Director Resources
		Debbie Jones	Corporate Director Children's Services
		Aman Dalvi	Corporate Director Regeneration and Development
		Denise Radley	Corporate Director Adult Services
		Graham White	Acting Corporate Director, Legal, Policy and Governance
		Minesh Jani	Chief Internal Auditor
		Andy Sayers & Anthony Smith	KPMG External Audit

Electronic Survey

A powerful component of the CIPFA FM Model is the electronic survey. Across a range of staff with differing financial management roles the electronic survey is used to test best



practice statements against the actual prevailing conditions and practice within the organisation. Such scope would include e.g. the robustness of budget setting, the integration of business and financial planning, financial management competencies, the extent to which finance supports strategic decision making etc.

Contributors complete the electronic survey and submit their results on line over a prescribed period of time. In addition to scoring the statements, contributors were given the facility to record observations and evidence which provide valuable insight as well as substantiating their scoring. The overall response rate for the electronic survey was 179 out of 242 participants – 66.1% submitting data/evidence. The minimum level acceptable as evidence is normally 50% for each survey group. Response rates for each of the survey groups are set out in the chart below:

Table 3 – Survey groups

Group	Survey Groups	Invited	Completed
SG1	Strategic finance	13	11
SG2	Operational finance	99	86
SG3	Heads of Service	6	5
SG4	Operational managers	124	77
SG5	Board, Stakeholders and external contributors	0	0
	Total	242	179

Master scoring

In terms of high level representation of the scores we have used a “traffic light” approach as follows:

Colour	Score
Red	0.0 – 1.9
Amber	2.0 – 2.9
Green	3.0 – 4.0

The following key outlines the extent to which each grouping of good practice statement applies at LBTH in RAG rating:



Scoring - the extent to which statements apply	0.0	Not at all
	0.5	Hardly
	1.0	Hardly
	1.5	Lower than basic
	2.0	Somewhat
	2.5	Mostly
	3.0	Strongly
	3.5	Strongly
	4.0	Fully

The assessor concluded the independent assessment of the score for each best practice statement, taking into account the range of evidence gathered from all sources⁴ during the review. The key findings of the review are set out in section three of the main report.

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⁴ Electronic Survey, interview and document review.



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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>7th April 2021</p>	 <p>TOWER HAMLETS</p>
<p>Report of Kevin Bartle, Interim Corporate Director of Resources (Section 151 Officer)</p>	<p>Classification: Unrestricted</p>
<p>2020-21 Accounting Policies</p>	

Executive Summary

To review and note the 2020-21 accounting policies in readiness for the review of the 2020-21 Statement of Accounts.

Recommendations:

The Audit Committee is recommended to:

1. Review and note the draft accounting policies for 2020-21 at appendix A.

1. REASONS FOR THE DECISIONS

- 1.1 It is good practice to consider and agree the accounting policies in advance of the production and approval of the draft accounts.

2. ALTERNATIVE OPTIONS

- 2.1 The Audit Committee review and note the Accounting Policies for 2020-21 at Appendix A.
- 2.2 The Audit Committee review and propose changes to the Accounting Policies for 2020-21 at Appendix A.

3. DETAILS OF THE REPORT

- 3.1 Within the statement of accounts, the Council discloses the accounting policies it has applied to all material balances and transactions. This report presents the proposed accounting policies to be adopted for the 2020-21 financial year. The policies are prepared in line with CIPFA's Code of Practice on Local Authority Accounting in the UK 2020-21 (the Code). It is good practice to consider and agree the accounting policies in advance of the production and approval of the draft accounts.

- 3.2 There are no major areas of accounting change within the Code in 2020-21 as, once again, the change expected from IFRS 16 – Leases has been deferred. This IFRS will not come into effect now until 2022-23.
- 3.3 Therefore, the accounting policies in Appendix A have not significantly changed from 2019-20, except to add clarity, update dates, years, etc. The Heritage assets value at 31st March 2021 and the note numbering for contingent liabilities referenced in appendix A will be updated based on the draft 2020-21 statement of accounts.
- 3.4 As work on the statement of accounts will be on-going until they due for public inspection, changes may be made to these policies if necessary and the Audit Committee will be updated on any notable changes in subsequent meetings.

4. EQUALITIES IMPLICATIONS

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

5. OTHER STATUTORY IMPLICATIONS

- 5.1 None.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The 2020-21 Accounting Policies at appendix A will underpin the Council's financial statement of accounts in line with CIPFA's Code of Practice on Local Authority Accounting in the UK 2020-21 (the Code).

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Accounts and Audit Regulations 2015 require a local authority to have a sound system of internal control, which ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk.
- 7.2 The matters set out in this report comply with the above regulations.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendix A – 2020-21 Accounting Policies

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:

- Ahsan Khan, Chief Accountant Email Ahsan.Khan@towerhamlets.gov.uk

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APPENDIX A – 2020-21 ACCOUNTING POLICIES

1. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31st March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003

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

Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the going concern concept assumes that the Council will continue in operational existence for the foreseeable future.

2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised as the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet if material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- The Council operates a de minimis of £10,000 for revenue and £50,000 for capital below which items of income and expenditure are not required to be accrued.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4. Exceptional items

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

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund balance, MRP, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

The Council has also decided to make a voluntary MRP contribution for HRA properties equal to 100% over the life of the asset as recommended in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

7. Council Tax and Non-domestic Rates (England)

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

8. Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

9. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (based on the constituents of the iBoxx AA corporate bond) as at 31st March 2021.

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services.
- net interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.
- contributions paid to the pension funds – cash paid as employer’s contributions to the pension funds.

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

The Council has indemnified its wholly owned subsidiary, Tower Hamlets Homes Limited (THH) for pension contributions to the Local Government Pension Scheme administered by the Council and relating to [pension benefits accrued by individuals whilst employed by the Council and prior to their transfer to THH]. The Council’s liability to make contributions under this indemnity is accounted for using the policies set out above for the Local Government Pension Scheme.

Discretionary Benefits

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

10. Financial Instruments

Financial Liabilities

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

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

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

Financial Assets

Financial assets are classified based on a consideration of the business model for holding the asset, along with analysis of their cashflow characteristics. There are three main classes, measured at:

- Amortised Cost
- Fair Value through Profit or Loss
- Fair Value through other Comprehensive Income and Expenditure (none currently held by the Council)

Financial Assets Measured at Amortised Costs

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently carried at their amortised cost. Annual credits to the Financing and Investment line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding

principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has calculated the expected credit loss on non-housing trade debtors and housing related rent arrears. The expected lifetime credit loss is calculated in the first instance upon historic payment information.

Further consideration has been given to macro-economic factors, in particular that the effects of COVID-19 might render collection of outstanding debts more difficult. However, since this is the first national experience of pandemic, identifying and quantifying impacts in any robust manner has not been possible.

The Council's treasury advisors provide details of potential 12-month credit losses on treasury deposits, with deposits to other Councils having no default risk, the remaining deposits to banks had no known credit losses. This is borne out by the Council not having a treasury counterparty default on a deposit in recent years. The Council has not purchased any credit impaired investments.

Financial Assets Measured at Fair Value through Profit or Loss

Financial Assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

11. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and

Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

12. Heritage assets

The Council does not actively acquire or dispose of heritage assets as part of its normal day to day business and where the Council holds heritage assets, these have usually been donated. The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £XX.X million at 31 March 2021. This valuation is based on valuations for Works of Art and Civic Regalia. The local history collection is not included on the balance sheet as valuations are not available due to the unique nature of the assets. Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous.

Most heritage assets owned by the council have an historical interest to the Borough, but would not have material market value.

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

13. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as a Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the

present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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

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

Operating Leases

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

The Council as a Lessor

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

Operating Leases

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

14. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the Council's arrangements for accountability and financial performance. The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received.

15. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- Other Land and Buildings – current value, determined as the amount that would be paid for the asset in its existing use.
- Vehicles, Plant, Furniture and Equipment, and Infrastructure – depreciated historical cost.
- Community Assets, and Assets Under Construction – historical cost.
- Surplus Assets – fair value, estimated at highest and best use from a market perspective.
- Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value – this is the case in particular for the valuation of schools.

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

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

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

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

Depreciation

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

- dwellings - straight-line allocation over the useful life of the property as estimated by the valuer
- other buildings – straight-line allocation over the useful life of the property as estimate by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset
- infrastructure – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset.

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

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

16. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

There is also a third PFI contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance, both of which are written down over the term of the contract.

17. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant

revenue account if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

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

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

Contingent Assets

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

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

18. Reserves

The Council sets aside specific amounts as revenue reserves for future policy purposes or to cover contingencies; these are earmarked reserves. In addition, there are some capital reserves which are used to hold the capital resources of the Council separately from revenue reserves. Collectively, these are all presented on the Balance Sheet, together with General Fund Balances and HRA Balances, as Usable Reserves.

Certain reserves are kept to manage the accounting processes for long-term assets, financial instruments, retirement and employment benefits and do not represent usable resources for the Council. Collectively, these are presented as Unusable Reserves on the Balance Sheet.

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

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

20. Fair value measurement

The Council measures some of its non-financial assets such as surplus assets and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid

to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

21. Value added Tax (VAT)

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

22. Community Infrastructure Levy

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

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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>Wednesday, 7 April 2021</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Kevin Bartle, Interim Corporate Director, Resources</p>	<p>Classification: Open (Unrestricted)</p>
<p>Internal Audit and Anti-Fraud Progress Report</p>	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards);

Executive Summary

This report provides an update on progress against the delivery of the 2020/21 Annual Internal Audit Plan and highlights any significant issues since the last report to the Audit Committee in January 2021. 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.

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 against the 2020/21 Internal Audit Plan

3.1 Since the last Audit Committee in January 2021 the following progress has been made:

Engagement Plans Issued to Management

- Sickness Management
- Contract Management of Commissioned Services (HAC)

Audits in Progress (Fieldwork)

Audit Title	Target for Draft Report
Review of Company Governance Arrangements (Consultancy)	March 2021
Election Spending	March 2021
Contract Monitoring of Grouped Schools PFI Contract	April 2021
Supporting Stronger Families – Grant Claim Certification	N/A
Discretionary Housing Payments	April 2021
Place Directorate Governance	March 2021
Planning and Capital Projects Community Infrastructure Levy (CIL) Collection and Utilisation	March 2021
Asset Management	March 2021
Payroll	April 2021
NNDR	March 2021
Overview and Scrutiny functions	April 2021
Child Exploitation Services	April 2021
Contract Monitoring of Children’s Commissioned Services	April 2021
Private Sector Compliance with Fire Risk Assessments	March 2021
Drugs and Alcohol Services – Contract Monitoring	March 2021
Ethical Culture	April 2021
Delivery of Efficiency Savings	March 2021

Draft Reports

Audit Title	Draft Report First Issued	No. Days Overdue
Emergency Hardship Payments (Resident Support Scheme)	12/02/2021	12
Management of Complaints	08/03/2021	0

Final Reports

Audit Title	Opinion
Treasury Management	Substantial
IT Remote Working	Reasonable
Debtors and Income Recovery	Reasonable
Local Community Fund	Reasonable
General Ledger	Reasonable
New Town Hall – Contract Audit	Reasonable
Pensions Administration	Limited
Staff Declaration of Interests	Limited
Housing Allocations and Lettings	Limited

3.2 Summaries of the finalised audits are included at Appendix A.

Annual Internal Audit Opinion

3.3 In accordance with the Public Sector Internal Audit Standards the Head of Internal Audit is required to give an overall opinion on the governance, risk management and internal control environment of the Council. This opinion is mainly, although not exclusively, based on the outcomes of internal audit's activity. If asked to provide an opinion today the balance of work would suggest that a Limited assurance opinion would be warranted, although the balance of substantial/reasonable and limited assurance opinions has improved since January 2021.

Table 1 – Final Audit Opinions Issued in 2020/21

Substantial Assurance	Limited Assurance
Treasury Management	IR35 Off Payroll Engagements
	Back up Schedules and Protection (IT Audit)
Reasonable Assurance	Control and Monitoring of Parking Permits

DSP Tool Kit	Acquisition of Properties for Temporary Accommodation
Payment Controls for Temporary Accommodation	Capital Programme Governance
Creditors	Financial Assessments of Contributions to Social Care
IT Remote Working	PCI DSS Governance
Debtors and Income Recovery	Corporate Governance
Local Community Fund	Cyber and Network Security (IT Audit)
New Town Hall Contract	Deputyships and Appointeeships
	Pensions Administration
	Staff Declarations of Interest
	Housing Allocations and Lettings

Internal Audit Annual Planning for 2021/22

- 3.4 Planning activity for 2021/22 has begun and a draft plan for 2021/22 will be presented to the Audit Committee for review and agreement at its next meeting in July 2021. If the Audit Committee has any areas of the Council's business it would like assurance over, please inform the Head of internal Audit or Audit Manager. Equally, if any of the Committee members would like to discuss potential areas of audit in advance of the Audit Committee the Head of Internal audit will arrange individual meetings.

Internal Audit, Anti-Fraud, Risk and Insurance Reorganisation

- 3.5 The consultation for a reorganisation of the service was launched on the 16th February and closed on the 17th March 2021. The reorganisation is designed to contribute to the Finance, Procurement and Audit savings proposals as well as improve resilience and succession planning of the service. Once the new structure is finalised the Audit Committee members will be provided with further details.

Corporate and Social Housing Fraud

- 3.6 The Corporate Anti-Fraud Team consists of the following sub teams:
- Intelligence
 - Social Housing
 - Corporate Investigations
 - Blue Badge

- 3.7 There is also an investigator in the Insurance Service who examines the integrity of insurance claims to eliminate fraudulent submissions and repudiate inappropriate claims.
- 3.8 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.
- 3.9 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. 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 recommenced, however these have since halted with the reintroduction of restrictions. It's 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 late 2021 and 2022.

Summary of Referrals and Outcomes for 2020/21

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

Table 3 - Corporate Fraud Team, April 2020 to February 2021

No. of referrals	Closed	Rejected	Ongoing
19	8	5	6

Table 4 - Social Housing Fraud Team, April 2020 to February 2021

No. of Referrals	Closed	Rejected	Ongoing	Properties Recovered	RTB Applications Stopped	Misc. successful outcomes
236	34	69	201*	20	4	2

*Includes cases from previous year(s).

Proactive Anti-Fraud Activity

3.11 The data matches for the Cabinet's Office's National Fraud Initiative (NFI) were released in late January 2021. A summary of the matches is show in the table below:

Table 5 – Summary of NFI Matches

Ref:	Report Title	No. High Priority Matches	No. of Medium Priority Matches
173.1	Council Tax Reduction Scheme	80	118
173.2	Blue Badge Parking Permit	8	310
173.3	Housing Benefit Claimants	355	13
173.4	Housing Tenants	325	0
173.5	Payroll	3	17
173.6	Pensions	124	44
173.7	Resident Parking Permit	60	0
173.8	Right to Buy	1	0
173.9	Waiting List	165	1267
	Total	1121	1769

3.12 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. We are prioritising high risk matches.

3.13 In addition to the NFI exercise we participated in a Transliteration pilot with the Cabinet Office which targeted alleged multiple identify fraud by using data we had already submitted via the National Fraud Initiative. We were informed of 97 matches in total, all 97 have been reviewed and closed. Whilst not solely focussed on housing, the outcomes included 3 housing applications that need to be cancelled and 3 other cases relating to successions and transfers that will be reviewed again by the service, no fraud was identified.

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.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix A – Summary of Finalised Audits

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:

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Summaries of Finalised Internal Audits

Assurance level	Significance	Directorate	Audit title
Limited	Extensive	Corporate	Staff Declaration of Interests
Limited	Extensive	Resources	Pensions Administration
Limited	Extensive	Place	Housing Allocations and Lettings
Substantial	Extensive	Resources	Treasury Management
Reasonable	Extensive	Place	New Town Hall - Contract Audit
Reasonable	Extensive	Resources	Debtors and Income Recovery
Reasonable	Extensive	Resources	General Ledger
Reasonable	Extensive	Governance	Local Community Fund
Reasonable	Extensive	Resources	IT Remote Working

Limited / Reasonable Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Staff Declaration of Interests (DOI)	March 2021	<p>This audit reviewed the management and control over declarations of interests by LBTH staff. In accordance with the Staff Code of Conduct, employees either positively declare that they have no interests, or if they have any conflicts, they make a written declaration. Employees are required to complete a DOI form on an annual basis to include financial, non-financial and personal interests and any secondary or additional employments. The declarations are required to be assessed and approved by line managers. The following issues were reported:</p> <ul style="list-style-type: none"> • There are several procedures on the Council's Intranet providing guidance to staff on completion, management and control of staff DOIs. These procedures have not been reviewed and updated. • The DOI guidance to officers dated September 2016 states that each Council employee should complete the DOI form annually, even if there are no interests or secondary employments to declare. Our testing of compliance against this requirement showed that a significant number of staff have not completed their DOI forms on the HR Self Service system for 2020/21. The latest analysis showed that only 29% of staff across the Council had completed the DOI forms during 2020/21. • Director level authorisation is required for secondary employment (either paid or unpaid), a company directorship held or secondary employment within the Council, which could potentially create a conflict of interest or impact on the ability of the employee to carry out their duties effectively and legally. These Director level authorisations were not evidenced on the HR system. 	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Staff Declaration of Interests	March 20221	<ul style="list-style-type: none"> • Testing confirmed that for the period 01/04/2020 to 22/01/2021, of the 4,516 staff in the establishment, 1,331 declarations were made by means of submission on HR Self Service. Of this, 1,058 had been authorised (79.48%), 265 had been submitted but not authorised (19.90%) and 8 had been rejected. Where the DOI forms were rejected by line managers, the reasons for rejection and any mitigating actions needed were not recorded in the system, although there is a field for this purpose. The rejected DOIs are not electronically notified (via emails) to the relevant employees by the system and hence the employees do not have the visibility as to why their DOIs have been rejected. Where line managers had approved declarations of interests or secondary employment or both, the basis of approval was not recorded, although there is a section on the form for line managers to comment on why any declarations are approved. • Regular management information reports are not produced for monitoring by the CLT, DLTs, Heads of Services and for line managers to report upon issues such as overall DOI completion and non-completion rates, number of employees who have secondary employment, number of employees who have potential conflict of interest and so on. 		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions Administration	March 2021	<p>The audit was conducted to provide assurance to management that the systems for managing Pensions within London Borough of Tower Hamlets (LBTH) are sound and secure to meet the agreed objectives.</p> <p>The following issues were reported:</p> <ul style="list-style-type: none"> • For the Council we reviewed the total employee and employer contribution deductions recorded on the Payroll Summary Analysis and compared it with the amounts credited into the Pension fund bank account for the period April 2019 to March 2020. We identified a cumulative difference of £697,628 not being credited to the Pension fund bank account. It was confirmed that the differences are due to a new auto-enrolment software where the issue is with the third party deduction programme that make payments to the BACS system. • Employers within the scheme are not following the Pension Regulator's (TPR) guidelines of good practice in respect of contributions and funding and record keeping are not followed adequately. Pension contribution deductions from the members' salaries into the pension fund on a timely basis and accurate member records are not uploaded directly onto i-Connect by the employer. • We reviewed a sample of 20 amendments (change of address, bank account details or nominated beneficiaries) from a total of 673 amendments requested in the period 1 April 2019 to 31 March 2020. We identified 11 exceptions where time delays were evident in changing members' information and nine exceptions where confirmation sent to the members could not be evidenced. 	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
		<ul style="list-style-type: none"> • We reviewed a sample of 20 members who had opted-out within three months of joining the pension scheme and were due a refund in the period 1 April 2019 to 31 March 2020. Refunds were not made in a timely manner in two cases. The refunds were recorded as complete on the Altair’s workflow at a date which was later than the due date, ranging from ten to 21 days. This could lead to member recourse to the ombudsman. • We have noted the following with regards to the risk that information within Annual Benefit Statements and Annual Allowance Statements may be incorrect/inaccurate and has not been sent to members in a timely manner, and the introduction of new systems of checks to mitigate the risk. This risk will be further mitigated upon the introduction of a self-service portal which will enable the members to download relevant statements/information using their unique credentials. The target to implement the automated process is August 2021. <p>All findings and recommendations were discussed and agreed with the Pensions and Investments Manager and Payroll Manager between January and March 2021, and the final report was issued in March 2021 to the Interim Corporate Director of Resources and S151 Officer.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Allocations and Lettings	March 2021	<p>This audit examined the systems and controls for assessing, approving and prioritising applications to the Housing Register and resulting lettings in order to ensure that decisions taken are in accordance with Council policy and statutory guidance. The following issues were reported:</p> <ul style="list-style-type: none"> • From our testing we identified that 5 out of the 20 applicants either failed to submit the required two pieces of identity documentation or proof of three years residency in the borough. • There was no evidence that officer checks had been undertaken to confirm that applicants had not been evicted, nor subject of bad behaviour in the last three years or that they do not have sole or joint income of more than £85,000 per annum. • Two applicants were identified as homeowners however, there were no notes held on the system to explain why these applicants could join the housing register. • Our review of 20 applicants who have remained on the waiting list the longest (circa 30-40 years) revealed that 7 had last had a biennial review between 2013-2015, 7 had never been contacted and asked to express an interest if they wished to remain or not, and 6 were categorised as band 3 and would not have been subject to a review. 	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Allocations and Lettings	March 2021	<ul style="list-style-type: none"> • 20 live applications on the housing register were reviewed for applicants within an age group of 80 to 103 years. This revealed that 17 had never received an annual review, 3 were found to have had an annual review the last being in 2014. Further testing of this sample group revealed that 5 had moved out of Borough, and 11 were deceased. • We were advised that the new system that was introduced in July 2019 does not include an officer's mandatory checklist of application process checks that should be carried out. Therefore, this does not facilitate efficient management checks to be undertaken on a sample of applications that have been allowed to join the waiting list. • 20 live applicants selected from the months of January 2019 – October 2019 were reviewed for their bidding history. This revealed that 13 of the 20 applicants (65%) had never bid for any properties since being accepted onto the housing register. • Declaration of interest forms were reviewed for 33 staff within the service. We found that 5 staff members had last completed the declaration in 2017, 20 staff members had last completed in 2018, 6 last completed in 2019, 1 member of staff had completed in 2020 and 1 staff member had not completed a declaration at all. 		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Treasury Management	March 2021	<p>This audit sought to provide assurance around systems in place to manage the Council's Treasury Management activities, particularly in relation to dealings, transactions and reconciliations (ICD Portal, Logotech and Bank line). We were able to confirm that the following systems were well designed and operating as intended:</p> <ul style="list-style-type: none"> • Treasury Strategy Statements • Roles, Responsibilities and Delegated Authority Levels • Treasury Reporting • Justification for Temporary Borrowings • Compliance with Prudential Indicators • Treasury Management Training • Processing of Treasury Transactions • Cash Flow Forecasting • Short and Long Term Investments • Treasury Management Reconciliations • System Access and Security. <p>We also followed up the previous internal audit and confirmed that all recommendations had been implemented. It should be noted that during our review, we found that there were un-reconciling balances for Quarter 1 in relation to the balances posted to the Bank, Agresso and ICD Portal, where a finding was initially raised, however these were subsequently corrected for Quarter 2 and presented to us following the first issue of the draft report in February 2021.</p> <p>All findings and recommendations were discussed and agreed with the Interim Corporate Director Resources and Head of Strategic and Corporate Finance. in March 2021, and the final report was issued in March 2021.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
New Town Hall Project	March 2021	<p>This audit sought to provide assurance that the governance, risk management and project management arrangements operating over the New Town Hall Project are adequate and effective to meet the agreed objectives. The following two issues were reported:</p> <ul style="list-style-type: none"> • The risks identified at corporate level are reviewed by the Project Board at each meeting and this is noted in the minutes. There is one Red risk that the New Town Hall Project contingency budget allowance of £5m is not sufficient. There are also four amber risks (engagement with other partners, accommodation requirements, car parking and other accommodations to share) that are being reviewed and noted in the Project Board minutes, however, no changes have been made to the risk register itself, control measures and dates have not been recorded and allocated to the owners for monitoring and implementation. • Previous decisions and value for money considerations in the original business case for the New Town Hall Project were based upon £78m of the £105m project being funded by capital receipts i.e. disposal of redundant building assets. The current cost of the Project is now forecast at £123.350m with £90.120m to be funded from borrowing. The rationale for this was set out in the September 2020 Cabinet papers, where it was noted that the wider Council finance strategy has changed due to the low interest rates. The Project is expected to be completed in spring 2022. Although interest rates are low, there is an associated cost and consequently there is a need to ensure that the original expectations with regards to value for money remains. <p>All findings and recommendations were discussed with the Project Director - Town Hall in February 2021 and agreed with the Corporate Director – Place in March 2021, and the final report was issued in March 2021.</p>	Extensive	Reasonable

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors and Income Recovery	March 2021	<p>This audit sought to provide assurance that the controls operating over the Sundry Debtors system, debt recovery and operation of various panels for recovering income due are sound, secure and adequate. The following good practice was confirmed:</p> <ul style="list-style-type: none"> • Key details such as the invoice number, amount and description of goods/services of the sampled transactions matched with the supporting evidence. • Value of the sampled outstanding arrears matched with the supporting system screenshots. • Sampled write-off transactions were coded in line with the requirements of the Corporate Write-off policy. These were signed by the officer processing the write-off, Head of Revenues and Chief Financial Officer evidencing adequate segregation of duties. • A workflow was evidenced for all sampled new debtor account requests evidencing who requested and approved the debtor account to be added onto Agresso. • We conducted a walkthrough of the IT system in place for raising debtor accounts on Agresso and assessed that the processes are effective and in line with the internal guidance. <p>The following issues were reported:</p> <ul style="list-style-type: none"> • A review of a sample of 20 accounts in arrears (£321,256) relating to 1,709 debtor accounts during 1 April 2019 to 23 March 2020, identified that a diary note evidence was not available in two cases, adequate recovery action was not evidenced in one case and the last recovery 	Extensive	Reasonable

		<p>action by the Council was not timely in four cases.</p> <ul style="list-style-type: none"> • A review of a sample of 20 invoices (£65,592) for 2019/20, identified in three cases, the documentation supporting the invoice could not be provided due to remote working arrangements, in three cases we could not confirm if sufficient supporting documentation was available due to no response from officers and in three cases, an invoice was not raised promptly after the end of service period, ranging from 33 to 271 days. • Commercial Rent and Social Care Debt Monitoring Group meetings are not conducted, and minutes of the meetings not recorded, on a regular basis. Management confirmed that the Commercial Rent Monitoring Group meetings were cancelled for the months September 2019, December 2019 and February 2020 whereas Social Care Debt Monitoring Group meetings cancelled for October, November and December 2019. <p>All findings and recommendations were discussed and agreed with the Head of Revenue Services and Income Collection & Enforcement Team Manager in March 2021, and the final report was issued in March 2021.</p>		
Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
General Ledger	March 2021	<p>This audit sought to provide assurance that the systems and controls operating over the Council's General Ledger system are sound and secure to meet the agreed objectives.</p> <p>We were able to confirm that the following systems were well designed and operating as intended:</p> <ul style="list-style-type: none"> • Chart of accounts management • Cost centre Management • Financial regulations • Control account reconciliations 	Extensive	Reasonable

		<ul style="list-style-type: none"> • Suspense account management • Back up processes for the Agresso system • Interface management and reconciliation. <p>The following issues were reported:</p> <ul style="list-style-type: none"> • The Council still has balances relating to income from grants and contributions from 2018/19 which have not been rolled forward. Although the accounts were presented to the Audit Committee in April 2020, with the Council also recognising it as an issue, it is yet to be addressed and the balances rolled forward. • The Deloitte external audit report dated July 2019 stated that errors were identified in the recognition of income from grants and contributions in 2018/19 due to applying the wrong recognition basis and inadequate control over the reconciliation of control accounts. The external audit report also identified the following misstatements: recording leaseholder contributions to capital projects, recognition of community investment levy, accrual of income relating to Dedicated Schools Grant and the carrying forward of a balance on a control account for PFI grant. • Through our audit work, we confirmed that the Council has put in place processes to address the findings raised by the consultant's report in addition to the recommendations raised by CIPFA. For example, through our testing of changes to the chart of accounts and cost centre set ups, we confirmed that there is the use of a form which must be approved by authorised signatories, for which there is a schedule in place. We also confirmed there to be a process in place whereby feeder systems are reconciled to Agresso with the use of monthly reports generated by Agresso and reconciled by the Senior Finance Officer. We were also provided with evidence of cost centres being set up to provide greater detail in terms of financial reporting and being in 		
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		<p>line with the Statement (Chart) of Accounts.</p> <ul style="list-style-type: none"> As recommendations have already been raised by the consultants used by the Council (Worth Technical Accounting Solutions) in respect of the general ledger and overall financial management, we have not raised a formal recommendation as part of this audit report. <p>All findings and recommendations were discussed and agreed with the Chief Accountant and Head of Financial Systems in March 2021, and the final report was issued in March 2021.</p>		
Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Local Community Fund – Grant Awards	Jan 2021	<p>This audit reviewed the processes leading up to the award of funding under the LCF programme. All the bids received were assessed and evaluated by an external firm which was procured via the Council’s Request for Quotation (RFQ) system. In total, 240 project bids were submitted by more than 130 organisations. Projects with the highest scores were recommended for funding, with some adjustments following consultation with directorate leads. The July 2019, Cabinet approved the funding of 50 projects recommended by Officers. The funding was for the period 1st October 2019 to 31st March 2023, amounting to £9.31m over the 42-month period. The following areas of good practice were identified:</p> <ul style="list-style-type: none"> Evaluation of organisational suitability, including the supporting documentation. Projects with the highest scores were recommended for funding, with some adjustments following consultation with directorate leads from the Children and Culture and Adult, Health and Community directorates. Unsuccessful organisations received an outcome email, which offered 	Extensive	Reasonable

		<p>feedback on the application on request.</p> <ul style="list-style-type: none"> • Funding agreements relating to most of the projects in our sample and other projects had been drawn up and signed by both parties in October and November 2019. • In a sample of 8 organisations, quarterly payments had been made in respect of all their projects in accordance with approved funding recommendations. • Assessors had completed declaration of interest forms. <p>The following issues were reported:</p> <ul style="list-style-type: none"> • The prospectus, which was included in the advertisement inviting the potential bidders to bid for the LCF funding did set out the eligibility and assessment criteria which had been co-produced with the voluntary sector. However, we found that a slightly different version was used by the external assessors for evaluating bids following discussion with the Voluntary Sector Team. We were informed by Management that the change to the criteria related to duplicate assessment of the same issue in both the organisational and project assessments. The change did not go through an approval process within LBTH as CLT approval would have been disproportionate. However, from a control point of view, the change – albeit small, was not formally approved by, for example, the Divisional Director. In Internal Audit's opinion this would have been appropriate, given the recent history regarding grant allocations in Tower Hamlets. Further, in order to be fully transparent and perceived as such, it would have been advisable to communicate the proposed change and the reason for it to the voluntary organisations submitting funding bids. While we did not test the outcomes, had the original version of eligibility criteria been used, management has stated there would not have been a discernible impact on the eventual outcome of the final assessments. 		
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		<ul style="list-style-type: none"> • The Voluntary Sector team advised audit that where there were some examples of discrepancies between total scores awarded by the two External assessors , these were then referred to the moderation panel. However, there appeared to be no documented pre-determined threshold approved by LBTH for referral to the moderation panel. In total, 9 projects were referred for moderation. One of these nine projects were selected for funding. There was evidence that a moderation panel meeting took place, but there were no notes or explanations as to how the final moderated scores which were recorded in the final project score spreadsheet were arrived at. • A planned, timely post assessment review to identify areas that went well, and any issues that could be improved to enhance organisational learning was not completed by the Voluntary Sector Team. Although we understand that as a result of a Judicial Review a review has now been undertaken. <p>All findings and issues were agreed with the Divisional Director, Strategy, Policy and Performance. Final report was issued to the Corporate Director, Governance and the Chief Executive.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
IT Remote Working	March 2021	<p>This audit sought to provide assurance that the Council's remote working transition arrangements were effectively executed. The following good practice areas were identified:</p> <ul style="list-style-type: none"> • The Council's IT Support provider, Agilisys, maintains a close view of IT operations, and a detailed IT Service Report is compiled for discussion at regular Monthly Operations Meetings. • The IT Service Report compiled for the Monthly Operations Meetings includes a detailed breakdown of IT issues reported to the Service Desk • Users equipped with Windows10 devices are prevented by the Council's SCCM (Service Centre Configuration Manager) solution from installing applications and software to their devices. This is strictly controlled and only permitted for authorised technical IT staff. • The Council has deployed Solarwinds to monitor the network bandwidth usage, health of systems and infrastructure. Solarwinds, maintains an overall view of the network infrastructure's health and alerts for any exceptions. • The Council has identified risks with the usage of portable memory drives/USB sticks and has taken proactive steps to restrict users from installing these types of removable devices on Council assets. • The Council's devices are configured with the same uniform build to include Bit locker AES 256 encryption. The secure configuration of these devices was based on specifications advised by the NCSC (National Cyber Security Centre). 	Extensive	Reasonable

		<p>The following issues were reported:</p> <ul style="list-style-type: none">• The process for reporting lost or stolen assets is known by employees, however this is not documented.• There is a technical issue between the Configuration Management Databases (CMDB) and IT Asset Register which is preventing lost or stolen devices from being identified/flagged. The root cause of this issue is unknown.• Several IT Policies (Information Security, Remote Working) are out of date/not yet approved/not in place.• Patch Management operational procedures are not documented.• User education contributes greatly to Service Desk call volumes. <p>All findings and recommendations were discussed and agreed with the ICT Team in January 2021, and the final report was issued in March 2021.</p>		
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Non-Executive Report of the: Audit Committee Wednesday, 7 April 2021	 TOWER HAMLETS
Report of: Kevin Bartle Interim Corporate Director, Resources (S.151 Officer)	Classification: Open (Unrestricted)
Risk Management - Corporate and Resources Directorate Risk Register	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards);

Executive Summary

This report presents the Audit Committee with the opportunity to review the Corporate and Resources Directorate Risk Registers.

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 Resources Directorate 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 directorates objectives at the next Committee meeting (or separately before the meeting if urgent).
3. **Note** the progress made against the Annual Action Plan for Risk Management.

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

Corporate Risk Register

- 3.1 The Head of Risk continues to work 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 March 2021 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).

Resources Directorate Risk Register

- 3.4 The Audit Committee should review the directorate risks and be satisfied that the risks are appropriate. In doing so the Committee may wish to consider similar challenge questions as those presented above.

Recommendation

- 3.5 The Committee is recommended to **note** the directorate 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 directorate objectives at the next Committee meeting (or separately before the meeting if urgent).

Future Directorate Risk Register Reviews

3.6 Going forward the Committee will be presented with the other directorates risk registers on a rolling programme as follows:

- Children's and Culture
- Health, Adults and Community
- Place
- Resources and Governance

Progress against Annual Action Plan for Risk Management

3.7 Progress against the Annual Action Plan for Risk Management has been slow but steady as a recruitment freeze remains in place and there are no dedicated risk resources in the Risk Team. Progress is 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 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, Health Adults and Community, Children's and Culture, Governance and Resources have all 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 continue to receive risk reports in their respective areas.
- A separate risk register is being maintained and coordinated through the Head of Risk for the Council's response to Covid-19; updates are reported regularly to CLT Gold. This bespoke risk register is 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.
- The Audit Committee has been presented with Place and the Resources directorate risk registers and a rolling timetable has been agreed.

Recommendation

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

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 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.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix A – Corporate Risk Register
- Appendix B – Resources Directorate Level 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

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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"> Overall management oversight and quality of supervision. Compliance with core statutory and local requirements. Adherence to key safeguarding thresholds. Regular assessments of cases, and emerging /changing risks. Strong planning for children, with regular reviews to avoid drift and delay. Maintaining strong quality assurance and auditing mechanisms. 	<ul style="list-style-type: none"> Harm to individual Children and young people being left in situations of risk and or unassisted harm. Poorer than expected outcomes for a child. Poor audit/review findings Reputational damage to the council. Poor Staff development and competence. Poor Quality assurance and Performance Management Loss of experienced professional staff. Potential for legal proceedings against the council leading to financial loss 	<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	Pandemic Flu Plan and Emergency Borough Command Structure The Council has instigated it's Multi Agency Pandemic Influenza Plan and the emergency Borough Command Structure. Gold, Silver and Bronze groups are operating effectively. Key risks have been identified and are being managed and reviewed at Gold and Silver meetings. Will Tuckley <u>Required Control Measure</u> Target Date: 30/06/2021 Recovery and Reconstitution The Council began its recovery phase during the summer of 2020. The plan anticipates additional waves of the pandemic occurring. A new MTFs has been agreed. Whilst R&R work has slowed in some areas this is anticipated and activity will be stepped up between waves of the virus. The Council is maintaining essential business as usual. Will Tuckley <u>Required Control Measure</u> Target Date: 30/06/2021	4	3	12	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		
RS0056	<p>The Council may significantly overspend its budget, fail to deliver savings and continue to rely on dwindling reserves.</p> <p>As of January 2021, we have a balanced budget for 2021/22, albeit still drawing on reserves to balance and a longer term funding gap of £11m.</p>	<p>COVID-19 Virus outbreak and associated increase in costs.</p> <p>Loss of income in particular council tax, business rates and leisure events.</p> <p>Poor budget management</p> <p>Failure to deliver savings</p>	<p>Significant financial losses, overspent budgets, further drawn down on reserves.</p>	<p>Financial Measures</p> <p>CLT and SLT have prepared savings proposals to deliver savings across 9 themes which were presented Members for their agreement:</p> <ol style="list-style-type: none"> 1. New ways of working from the pandemic 2. Managing demand by enabling people to help themselves 3. Streamlining our back office 4. Greater use of community assets 5. Digital 6. Buildings 7. Non- statutory services 8. Joining up services 9. Headcount reductions <p>Financial Actions</p> <p>Increased focus on budget management. Budget Managers Handbook Issued. All budget managers directed by CLT to remain in budget. High risk budgets reviewed by the Corporate Director Resources or the Divisional Director of Finance, Procurement and Audit.</p> <p>Redoubled efforts to deliver previously agreed savings proposals.</p>	5	4	20	4	3	12	Kevin Bartle	
BCLR0013	<p>Whilst an EU-UK Trade and Cooperation Agreement was reached and ratified by the UK in December 2020, considerable uncertainty remains about the medium to long term impact leaving the EU will have on the Council and it's residents.</p>	<p>Unknown and/or unforeseen impacts of the EU-UK Trade and Cooperation Agreement that have yet to materialise.</p>	<p>The consequences for the Council and the community may include less grant funding, data adequacy/protection, new regulatory services, increased settlement application support, construction, and some supply chain delays whilst business adapt to the new processes.</p>		4	4	16	4	2	8	Will Tuckley	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		
									Sharon Godman <u>Required Control Measure</u> Target Date: 31/12/2021						
ASD0015	Death or serious harm to a vulnerable adult who was or should have been, in receipt of services, either from the council or a partner agency.	<p>There is a failure of one or more of the controls in place to identify the degree of risk to a vulnerable adult (multi-agency safeguarding procedures)</p> <p>Poor practice, insufficient information sharing and/or inadequate management oversight.</p> <p>Failure of quality control systems.</p> <p>Service user fails to work to agreed partnership / agency arrangements.</p> <p>Poor communication and partnership work.</p> <p>Poor resourcing of service areas against increased demand.</p> <p>Local authority contracted out service do not have sufficiently robust safeguarding arrangements.</p>	<p>Harm to an individual. Reputational damage to the Council.</p> <p>Potential for legal proceedings against the council leading to financial loss.</p> <p>Loss of confidence in safeguarding capability.</p>	<p>CQC care commission embargo list used.</p> <p>This list is available from the CQC highlighting all providers where the CQC has raised concerns. London ADASS branch circulate any service suspensions or restarts due to safeguarding concerns and these are passed to the Brokerage service. this control measure passed to Claudia Brown 28/1/21 as Brokerage function now sits within Adult Social Care - Claudia to review and then pass to Paul Swindells, Service Manager if appropriate. Paul Swindells has recently reviewed the arrangements for this protocol.</p>	3	5	15	<p>Oversight through management reporting</p> <p>Social workers have 1:1 supervision monthly on their casework including safeguarding cases.</p> <p>The PSMT meet monthly to review and monitor Adult Safeguarding casework, particularly serious cases and develop and implement action plans and lessons learnt. Status changed to allow review of this control measure by Divisional Director (last reviewed 2016).</p> <p>Claudia Brown</p> <p><u>Required Control Measure</u></p> <p>Target Date: 30/04/2021</p> <p>Information campaigns to raise awareness of safeguarding with oversight from safeguarding adult's board</p> <p>This is an ongoing priority for the Safeguarding Adults Board and includes the annual 'Safeguarding Month' campaign in November each year. The Independent Chair takes a key role in this and all SAB partners participate. Specific campaigns are run at other times including financial abuse & scams, modern slavery, domestic abuse etc. Status changed to in progress to allow review by Divisional Director (this control measure not updated since 2016) who may wish to assign it to the relevant lead officer.</p>	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 L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
						<p>Claudia Brown</p> <p><u>Required Control Measure</u> Target Date: 30/04/2021</p> <p>5 year (2019 – 2024) Safeguarding Adults Board Strategy</p> <p>The actions within the SAB strategy aim to mitigate the risks associated with safeguarding. Please articulate key actions implemented and priorities for next six months when this control measure is next reviewed.</p> <p>Claudia Brown</p> <p><u>Required Control Measure</u> Target Date: 30/04/2021</p> <p>Safeguarding issues as part of contract management procedures</p> <p>Status changed to allow review by Joint Director for Integrated Commissioning (last reviewed 2016) - contract management procedures continue to focus on safeguarding.</p> <p>Warwick Tomsett</p> <p><u>Required Control Measure</u> Target Date: 30/04/2021</p> <p>Failed visit policy and procedures in place.</p> <p>Responsibility for this policy sits within Commissioning and applies to all commissioned services as well as the Council's own re-ablement service. Safeguarding Adults Reviews have identified problems with compliance to this policy and it is crucial that it is regularly reviewed and forms part of contract monitoring. Status changed back to in progress so that a review can be provided by</p>			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		

Joint Director of Integrated Commissioning - policy review to be carried out (policy last updated c18months ago) alongside a review of intelligence from contract monitoring reports.
Warwick Tomsett

Required Control Measure

Target Date:
31/07/2021

Safeguarding Adult Reviews Action Plan - implementation of recommendations of all SARs

We have recently overhauled our approach to tracking the implementation of recommendations from Safeguarding Adult Reviews.

We now have a single log providing a comprehensive overview of recommendations and the status of action/implementation. This is reported regularly to the Safeguarding Adult Board. New control measure added by Corporate Director and discussed with Claudia Brown, Divisional Director - control measure to be overseen by Principal Social Worker.

Claudia Brown

Required Control Measure

Target Date:
31/03/2022

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		
ORG0026	There is a risk the Council will be unable to deliver critical and essential services.	Cyber Security Attack e.g. ransomware, denial of service, phishing, malware or an active attack exploiting network security vulnerabilities. Industrial dispute Pandemic Flu or similar widespread infections/diseases. Natural disasters (fire, flood etc) Failure of critical third party provided services. Loss of regional infrastructure e.g. utilities	Failure to deliver critical services Death of serious injury e.g. to staff, members of the public or service users Failure to comply with statutory duties or other legal responsibilities Financial loss		3	5	15	A fully functioning and embedded Business Continuity Framework The Corporate Leadership Team has adopted a business continuity policy and civil contingencies arrangements. The development & maintenance of these arrangements is managed through the Civil Contingencies Board which is chaired by Denise Radley. The CCB meeting quarterly and more frequently when required. In 2019/20, new business continuity software (Clearview) to support directorates and services to manage key risks was implemented and is being embedded across the Council. A recent audit of Business Continuity and Resilience identified some areas for improvement which are in the process of being actioned. The Council will soon run an exercise to test its preparedness for a cyber attack. Denise Radley <u>Required Control Measure</u> Target Date: 30/09/2021 Cyber Insurance The Council is currently seeking quotes to purchase insurance to mitigate the potential costs of a successful cyber attack. Adrian Gorst <u>Required Control Measure</u> Target Date: 30/04/2021	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. Ann Corbett <u>Required Control Measure</u> Target Date: 30/06/2021	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		
COVID0002	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.	<p>Lock down and partial opening of schools to key worker and vulnerable children only March – July 2020</p> <p>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</p> <p>Potential school closure on infection control grounds and or business continuity grounds</p> <p>Second full lockdown from 5th January – keyworker and vulnerable children in school only, remote learning for all others.</p>	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	<p>Infection control measures, partership working, lap to scheme & additional safeguarding guidance. Infection control measures, partnership working, laptop 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.</p> <p>Schools have audited families' IT capacity to identify pupils/families that are unable to access online learning and put other provision in place.</p> <p>Roll out of the government's laptop scheme, providing laptops for all children and young people with a social work and those leaving care, as well as vulnerable pupils in year 10 at school.</p> <p>Support for IT equipment to be purchased for pupils through the business community.</p> <p>Schools purchasing IT equipment for pupils.</p> <p>Additional safeguarding guidance issued to schools about pupils who are isolating.</p> <p>Information sharing across the council and with police regarding schools with groups of pupils who are isolating.</p>	4	3	12	<p>Summer programme</p> <p>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.</p> <p>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.</p> <p>Update 13/1/21 THEP building on systematic programme to support schools' remote learning in the short term and catch-up learning in the longer term. More systematic approach to address the remaining digital gap for home learning. Partnership approach to seek to identify hidden harms proactively. FSM entitled children supported with a local voucher scheme. Revised risk assessments by schools to enable in-school learning for all those entitled to attend.</p> <p>Update 16/2/2021 Schools successfully delivering in school and remote learning for</p>	3	3	9	James Thomas			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
						different cohorts. Work underway to address the digital divide through donations to purchase IT equipment. Schools supported to address gaps in learning through THEP . This work will now have added impetus following the government announcement of an educational recovery Tsar who will be leading planning for a national programme supported by £300m of funding. There are particular concerns about the impact of lock down on children in the early years and it is currently unclear if children of this age will be included in the national catch up programme Pauline Maddison <u>Required Control Measure</u> Target Date: 30/04/2021			
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.	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 has been completed to support delivery of the revised strategic plan.	3 4 12	Budget Management and Resource Monitoring Continual focus on budget management. Closely tracking delivery of savings and identifying alternatives if proposals become undeliverable. Regular budget reporting to CLT, Portfolio Leads, MAB and Cabinet Allister Bannin <u>Required Control Measure</u> Target Date: 31/03/2022 Performance Monitoring and Reporting Quarterly performance reporting to DLT's, CLT, MAB, Cabinet and Overview and Scrutiny. Regular portfolio review meetings held ensuring the Mayor and relevant Cabinet Members review	3 3 9	Will Tuckley	

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT	
					L	I	Total	L	I	Total			
								progress and discuss challenges. Annual review of strategic plan for 2021-2022. DLT's monitoring their directorate level delivery plans. Afazul Hoque <u>Required Control Measure</u> Target Date: 31/03/2022					
PLC0023	Failure to prepare and take action in relation to the proposed Building Safety Bill	Lack of leadership Insufficient resources Poor understanding of the requirements and consequences Passage of the bill is faster than anticipated	Potential Injury or death of residents Criminal and/or civil litigation for the Council and/or individual senior leadership Delays in construction Regulatory breaches Financial penalties Poor building safety Reputational damage	Research, Legal Advice and Monitoring Key officers are involved in researching the implications of the bill Legal advice has been sought LBTH/THH Building Safety Bill Group monthly meetings to monitor impact and progress Liaise with London wide forums and Federation of ALMOS on implementation	3	4	12	Key actions Develop appropriate Resident Engagement Strategies and inform tenants and leaseholders about the Bill. Communicate the likely impact of the Bill to Members, CLT and DLT. Working with LBTH, legal services, CLT and Members to examine the responsibilities linked to the Bill. Calculate the additional resources required to comply with the Bill when enacted Consider appointing a building safety lead in the council to undertake the assurance work need for the council to carry out its Accountable Body role. Consider appointing a specialist advisor for support with the Building Safety Case reviews. The Council's Building Safety Bill guidance will be updated regularly by Counsel. Potentially review existing	2	3	6	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			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
								contracts to ensure they comply with the Bill's requirements. Investigating digital storage methods to maintain the "Golden Thread of information". Karen Swift <u>Required Control Measure</u> Target Date: 31/03/2022							
RS0060	There is a risk of deteriorating health and wellbeing in the Council's workforce.	Prolonged impact of the pandemic including ill health (from contracting Covid-19) bereavements, isolation, poor mental health, significantly increased workloads necessitating long working hours, reduced resources, remote and different ways of working and a potential for 'burn out'.	Increases in stress and sickness Financial and physical impact on organisation and workforce. Inability to retain staff. Large backlogs of work. Delays in service delivery.		4	3	12	Health and Wellbeing Support Employee Assistance Programme promoted and available to all staff which provides confidential information, advice and support 24/7. Introducing a Network of trained Mental Health First Aiders. Staff can access the Tower Hamlets Well-being Zone for tips and advice. Financial support is available if needed. Regular team meetings held with frequent updates and 'check ins' for staff. Wellbeing staff surveys and action plans. 1:1's held regularly with staff. Management encouraging regular breaks. Amanda Harcus <u>Required Control Measure</u> Target Date: 31/12/2021	3	2	6	Amanda Harcus			

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		
RSB0023	Statement of Accounts qualified opinion received. Objections to the accounts. Previous years accounts being re-audited.	External audit of the statement of accounts and the subsequent findings/outcome.	Qualified opinion on statement of accounts. Reputational damage to the Council.		3	4	12	Improvement Plan An extensive improvement plan is in place and being actively delivered and monitored. Progress will be reported to CLT and the Audit Committee. Ahsan Khan <u>Required Control Measure</u> Target Date: 31/07/2021	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		
RS0061	Office accommodation has largely been left out of any business rates reliefs during 2020/2021 and Businesses/MHCLG/VOA /Rating Agents are in discussion to try and achieve a reduction in rateable values through the Material Change in Circumstances provisions (MCC). This was reported by the BBC as a 25% reduction although there has been no communication from central government to confirm this. There has also been no clear guidance from central government regarding the Expanded Retail Scheme under which we currently receive over £100m and whether this will continue into 2021/2022. If it does not it is likely that that will further MCC appeals for Retail, Hospitality and Leisure businesses. There is a 75% compensation scheme in place for losses in the current year but it is not clear whether this will continue into 2021/2022. All of the above make it extremely difficult to know what to do for the NNDR1 return and how to estimate the impact on the councils income for 2021/2022	A reduction in rateable values of 25% (or more) for offices. Retail Hospitality and Leisure could follow if reliefs are not extended into 2021/2022	Using the VOA SCAT codes for offices codes: CO, COC, COO, COS and COW: Total RV: £604,112,975 No. of props: 6531. We currently receive over £100m in Retail Hospitality and Leisure Relieve which could be lost	Working with VOA and MHCLG We will continue to work with the VOA and MHCLG to look at whether this will be funded either through S31grant or other means, and consider whether this should be accounted for in the NNDR 1 and 3 Working with all London Councils Working with all London Councils to present a united approach to MHCLG and how NNDR1's are being completed. Letter to be sent with completed NNDR1's from all London Councils Working with all London councils to present a united response to MHCLG Waiting for central government announcements on reliefs and RV changes. Annual billing delayed until budget statement on 3rd March. May need to consider changing 1st instalment date to allow for changes in software and testing before bills being sent out. Reviewing the current Check Challenge Appeal Data CCA data has been reviewed and updated estimates on current year provisions have been submitted in the NNDR2 return to London pool for March	4	5	20	Estimates on MCC changes will be worked for the NNDR3 return due 20th June 2021 Further analysis will be carried out on Check Challenge Appeal data and the Rating List will be broken down into categories to estimate the impact of unknown MCC's that may come through in the future for Offices, Retail Hospitality and Leisure, and other types of hereditament in the local list. Roger Jones <u>Required Control Measure</u> <u>Target Date:</u> <u>30/06/2021</u>	2	2	4	Roger Jones	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		
RSBR0007	A significant reduction in the councils income across all income streams due to COVID-19 and economic downturn as a result of government initiatives coming to and end, businesses not opening, and further spikes in infections.	COVID - temporary shut down of all collection and enforcement processes. Government funding coming to an end for furloughing schemes. Fees and charges not being raised. Decreased revenues and changes in demand for business premises - businesses moving out of Canary Wharf leading to a reduction in business rates, Landlords not being able to let large assessments and stripping them out which reduces the RV to Zero producing no yield. Office accommodation potentially being exempt. Local economy slow to restart, businesses failing	Significant loss of income for all income areas across the council Financial Pressure on the Councils finances	Income Recovery Plan being set up A recovery plan is being put together to look at restarting the collection and enforcement processes across all income streams Looking at the arrears position, bad debts, provisions and what increases in provisions will be needed. How quickly the courts will fully reopen to hold bulk hearings. When EA's can return to their usual working practices. Setting up extended arrangements and looking at the effect of furlough schemes coming to an end	4	4	16	3	2	6	Roger Jones	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		
ICT0073	Failure to deliver the business as usual IT service the council relies on to deliver public services.	Cyber security incidents Technical failures including hardware and software failures and service deficiencies Lack of understanding of how the complicated environment works leading to errors and omissions Insufficient documentation leading to errors and omissions Insufficient capacity or capability Supplier disputes Supplier insolvency		Progress on delivery of reliable ICT Future controls (the existing ones are too detailed for a high level risk) Commodity contracts with specialist providers Enhanced service integration function in house Enhanced documentation including registers of key information with specific named owners Implementation of service management disciplines Existing Control Measures Replacement of legacy technology Continual Service Improvement Plan Monthly Operations Meeting Commercial board Frequent engagement with strategic partner Escalation routes with strategic partner	3	4	12	Review of control measures in place The impact of control measures will be reviewed to gauge how effective they have been and whether additional work is needed. Adrian Gorst <u>Required Control Measure</u> Target Date: 31/05/2021	2	4	8	Adrian Gorst			
REV0066	There is a risk that transformation projects cannot be successfully implemented .	Resistance to change Poorly defined projects with inadequate business cases Poor project management inc planning and resourcing Failure to prioritise projects with high transformational impact	Projects stall or fail to meet milestones ; Failure to deliver benefits including financial (savings).	Agree a vision for corporate transformation CLT have agreed a corporate blueprint and target operating model (TOM) which sets out how the council will operate in 2022. This underpins our transformation and establishes a vision that can be used to communicate with staff Ongoing monitoring and governance of transformation projects to identify and address barriers to change A governance structure is in place with CLT level Senior Responsible Owners (SROs) leading 3 programmes. There is a monthly reporting cycle in which progress risks and issues are reported through SROs, and up to CLT Transformation Board, ensuring that specific issues are appropriately	4	3	12	Communication with staff based on the blueprint/ TOM via THNow, PODs (interactive discussion sessions- when back in the office), interactive sessions on new town hall, materials such as the lightboxes in MP and lift stickers etc with the aim of helping them understand direction of travel. CLT have signed off on the approach to this, using real life examples to illustrate what the transformation vision looks like in practice. This is ongoing. Anthony Walters <u>Required Control Measure</u> Target Date: 31/03/2022	1	3	3	Anthony Walters			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>escalated and addressed. This process has just been strengthened by implementing a clearer exceptions management process, agreed by CLT TB in January 21.</p> <p>Learning and development for managers and staff to support management of change</p> <p>Learning and development have in place resources on change management and a course for managers and staff on change- all accessible via learning hub</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
ICT0077	Failure to deliver business as usual IT services following the exit from the strategic partnership agreement	<ul style="list-style-type: none"> - Transition to new suppliers not completed by 31st March 2021 - Crucial TUPE staff do not transfer - Key staff not recruited in time - Knowledge transfer to LBTH teams not adequate to ensure service continuity - New technology and infrastructure not implemented by 31st March 2021 	<ul style="list-style-type: none"> - Loss of connectivity to LBTH sites - Reduction in levels of IT service performance - User dissatisfaction - IT equipment failure - Failure to rectify issues in a timely manor - service outage 	<p>Executive sponsorship</p> <p>Executive sponsorship established to secure funding, establish priority for IT, reinstate priority from supporting services.</p> <p>Demonstrate financial sustainability</p> <p>Updated the financial model to demonstrate we can afford to hire additional temporary and permanent resources to establish a service model for 1/4 and fill gaps left by staff not TUPE.</p> <p>Recruit temporary workers to fill capacity and capability gaps</p> <p>Essential roles filled on a temporary basis and then on a permanent basis.</p> <p>Early identification of blockers</p> <p>Twice weekly stand-ups to identify any blockers, supported by fortnightly technical meetings and weekly reviews.</p> <p>Enhance clarity of dependencies</p> <p>Assign additional project resource to identify and track dependencies with weekly reporting</p> <p>Establish contingency plans</p> <p>Where there is a high risk that the plan will not deliver for 1 April, a contingency plan has been established.</p>	2	5	10	2	4	8	Corinne Hargreaves	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		
CS0012	<p>Failure to properly undertake the necessary European Union (EU) exit impact assessments, relevant planning and preparing appropriate mitigation actions in the following areas;</p> <ul style="list-style-type: none"> All statutory services for which the directorate is responsible. - Data handling including data handling for any outsourced services. - All regulatory services for which the department is responsible. - Local partnership working with key statutory and strategic partners. 	Leaving the European Union on the 31st December 2020 without a trade agreement.	Disruption to services provided by the directorate.	<p>Ensure that appropriate Brexit related risks are identified, assessed and mitigation actions are in place.</p> <p>Departmental risks identified and added to risk registers.</p> <p>Weekly Brexit planning and reporting.</p>	3	3	9	<p>Compliance with Data Protection law, including SAR and IRRs,FOI & transparency code.</p> <p>The ICO position at present is know where your data flows are in and out of the EU, and if we don't have an adequacy ruling, be sure the contracts in place deal with data protection and security. We have 2 processes with some element of processing in EU. Gifts (for grants) and DocuSign (for legal /contracts)</p> <p>Ruth Dowden</p> <p><u>Required Control Measure</u></p> <p>Target Date: 17/05/2021</p>	2	4	8	Teresa Heaney	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To
HRT0215	There is a risk that HR/OD have insufficient capacity to support the necessary service changes.	higher absence, reviews delayed, delivery timescales of BAU work compromised	MTFS savings not implemented, policy reviews are delayed and changes take longer	<p>Insufficient Capacity in service to cope with demands</p> <p>A new realigned service model launched in June 2020, meaning incoming work is received through specific routes and is controlled and managed through Heads of HR/OD. There is ongoing absence across two PO6 level posts and work is redistributed and staff individual workloads are considered through work plans of all staff. The refreshed strategic plans and savings proposals will provide overview of reviews/realignments and restructures to come and from this along with new protocols for managing change - by September 2020 the service should manage these with a systematic way - this needs approval and support from CLT.</p>	3	3	9	<p>Mitigation</p> <p>We continue to manage individual workplans and review priorities, there is no additional capacity for work not planned within the service and this is accepted broadly in the organisation, we continue to promote wellbeing and work-life balance with the teams.</p> <p>Amanda Harcus</p> <p><u>Required Control Measure</u></p> <p>Target Date: 30/06/2021</p>	2	1	2	Amanda Harcus	

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		
CS0008	Our move to offer more services digitally, and to make this our default customer channel will exclude some residents impacting on their ability to access council services and the council's reputation	1.As we redesign service pathways, services may not adequately consider how they will meet the needs of those without digital access or skills 2. Disruption to the digital hub offer (eg closure due to more waves of covid) may mean that those who use the public network to access council services may not be able to access them	A small number of residents (by nature possibly some of our most disadvantaged) may not be able to access council services	Service Design We are working with services to ensure they include those without digital access in their designs. Furthermore we have developed a 'template' approach that will help them think through all the issues they need to in order to put a service on line. For example, "How will you support residents who have no digital access?" is one of the things they will be asked to specify.	4	2	8	Emergency Telephony During any closure of the Digital Hubs we will redeploy staff to telephones so that we are able to deal with increased calls Sergio Dogliani <u>Required Control Measure</u> Target Date: 31/08/2021	1	3	3	Teresa Heaney	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To		
ICT0074	Failure to deliver IT transformation that enables the council's vision, target operating model, MTFS.	Insufficient funding to meet agreed demand for IT change Insufficient capacity to meet agreed demand for IT change Insufficient capability to meeting agreed demand for IT change Insufficient resources to sustain changes Inability to prioritise IT change activities through governance processes Inability to stabilise prioritisation through to delivery Changes in the wider environment result in benefits not being achieved Project deficiencies result in the anticipated benefits not being achieved	Diminished reputation of the IT Service Inability to deliver IT MTFS savings through service efficiencies Inability to delivery wider council MTFS savings through service efficiencies Inability of wider council to sustain services	Monitor progress on IT transformation Monitor progress on IT transformation through IT Portfolio Management, RAG ratings defined and consistently applied IT management of IT projects. Business change with IT portfolio team Oversight by DPB and CLT Transformation Board. Future Controls Project managers accountable for project budgets Budget monitoring within projects Enhance lesson learned from projects to improve future performance	2	4	8	Establish three year plan Establish a rolling three year plan to allow time to identify change activities, agree priority, secure funding, align capacity and capability and implement governance. Adrian Gorst <u>Required Control Measure</u> Target Date: 31/05/2021	1	2	2	Adrian Gorst			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
ICT0078	Failure to deliver agreed MTFs savings from the exit of the Strategic Partnership agreement	<ul style="list-style-type: none"> - Technological solutions required to mitigate service performance risks increase the total service cost - TUPE and redundancy costs outweigh current estimations - Market supplements and increased agency fees are required where recruitment for key staff fails - unforeseen technology/resource is required to achieve the future delivery model, increasing IT service costs 	<ul style="list-style-type: none"> - ongoing failure to achieve identified savings - partial failure to deliver in year savings, with the potential to rectify in future years 	<p>Monthly review of financial sustainability</p> <p>Regular monthly review of impact of contingency plans on total service budget undertaken.</p> <p>Prioritisation of transition spend</p> <p>Projected spend reviewed against the transition reserve to remove non-essential spend and reallocate funding to contingency measures (where possible).</p>	2	3	6	1	2	2	Corinne Hargreaves	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

Non-Executive Report of the: Audit Committee Wednesday, 7 April 2021	
Report of: Kevin Bartle, Interim Corporate Director, Resources (S.151 Officer)	Classification: Open (Unrestricted)
Internal Audit Charter	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards);

Executive Summary

The Public Sector Internal Audit Standards requires the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter which must be approved by the Audit Committee.

This report and appendix provides the Audit Committee with the opportunity to review and approve the updated internal audit charter.

Recommendations:

The Audit Committee is recommended to:

1. Review and approve the Internal Audit Charter.

1. REASONS FOR THE DECISIONS

- 1.1 The Public Sector Internal Audit Standards requires the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter which must be approved by the Audit Committee.

2. ALTERNATIVE OPTIONS

- 2.1 None.

3. DETAILS OF THE REPORT

- 3.1 The Public Sector Internal Audit Standards requires the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter which must be approved by the Audit Committee.

- 3.2 The charter must be consistent with the Mission of Internal Audit and the mandatory elements of the Public Sector Internal Audit Standards (including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). The Head of Internal Audit must periodically review the internal audit charter and present it to the Audit Committee for approval.
- 3.3 The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the Head of Internal Audits functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 3.4 The internal audit charter must also:
- Define the terms 'board' and 'senior management' for the purposes of internal audit activity.
 - Cover the arrangements for appropriate resourcing.
 - Define the role of internal audit in any fraud-related work, and
 - Describe safeguards to limit independence or objectivity if internal audit or the Head of Internal Audit undertakes non-audit activities.
- 3.5 The charter has been reviewed and remains aligned with best practice as recommended by the Chartered Institute of Internal Auditors and is presented to the Audit Committee for review and approval.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no equalities implications to consider.

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 There are no other statutory implications to consider.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no specific financial implications to consider.

7. COMMENTS OF LEGAL SERVICES

7.1 The Recommendation of the report requests that the Committee review and approve the Internal Audit Charter. The requirement for an Internal Audit Charter is a statutory requirement as specified in the Accounts and Audit Regulations 2015. This provides that the Council must have an effective internal audit that evaluates the effectiveness of the Council's risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards and associated guidance.

7.2 In accordance with the Public Sector Internal Audit Standards, this Internal Audit Charter sets out the purpose, authority and responsibility of the Council's internal audit service. As advised at paragraph 3.2 of the report, the Charter will be reviewed periodically and presented to the Audit Committee for approval.

7.3 The recommendation falls within the scope of the terms of reference for the Audit Committee as set out in Section 4, Part B – Responsibility for Functions and Decision Making Procedures of the Constitution.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix A – Internal Audit Charter.

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, Anti-Fraud and Risk

paul.rock@towerhamlets.gov.uk

Internal Audit Charter

Introduction

The Accounts and Audit Regulations 2015 require the Council to have effective internal audit that evaluates the effectiveness of the Council's risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards and associated guidance.

In accordance with the Public Sector Internal Audit Standards, this Internal Audit Charter sets out the purpose, authority and responsibility of the Council's internal audit service. The Charter will be reviewed annually and presented to the Audit Committee for approval.

Purpose and Mission

The purpose of the Council's internal audit service is to provide independent, objective assurance and consulting services designed to add value and improve the Council's operations.

The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit service helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The internal audit service will govern itself by adherence to the mandatory elements of the Public Sector Internal Audit Standards, including the Core Principles, the Code of Ethics, the Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Head of Internal Audit will report periodically to the Corporate Leadership Team and the Audit Committee regarding the internal audit service's conformance to the Code of Ethics and the Standards.

Authority

The Head of Internal Audit will report functionally to the Audit Committee on a quarterly basis and administratively (i.e. day-to-day operations) to the Section 151 Officer. In addition, and to support the independence of the Head of Internal Audit, the Chair of the Audit Committee will be invited, at least annually, to contribute to the annual performance review of the Head of Internal Audit.

To establish, maintain, and assure that the Council's internal audit service has sufficient authority to fulfil its duties, the Audit Committee will:

- Approve the internal audit charter.

- Approve the risk-based internal audit and anti-fraud plan.
- Approve the internal audit resource plans.
- Receive communications from the Head of Internal Audit on the service's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Head of Internal Audit to determine whether there is inappropriate scope or resource limitations.
- Ensure and authorise the Head of Internal Audit to have unrestricted access to, and communicate and interact directly with, the Council's statutory officers as well as all other members of the Corporate Leadership Team, the Audit Committee and the Mayor including in private meetings without management present.
- Ensure and authorise officers from internal audit and anti-fraud to have full, free, and unrestricted access to all functions, records (including electronic records), property, assets, and personnel pertinent to carrying out any engagement and/or investigation, subject to accountability for confidentiality, data protection and safeguarding of records and information.
- Ensure internal audit is allocated sufficient resources and is free to select any service, project or topic for audit; set the frequency of audits; determine the scope of its work and issue reports.
- Ensure officers from internal audit and antifraud are able to obtain assistance from the necessary personnel of the Council, as well as other specialised services from within or outside the Council, in order to complete their engagements and/or investigations.

Independence and Objectivity

The Head of Internal Audit will ensure that the internal audit service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Head of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties including the Audit Committee.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous 12 months.

- Performing any operational duties for the Council, its companies, partnerships or similar arrangements.
- Initiating or approving transactions external to the internal audit, anti-fraud, risk and/or insurance departments.
- Directing the activities of any Council employee not employed by internal audit, anti-fraud, risk or insurance departments except to the extent that such employees have been appropriately assigned to those departments or to otherwise assist the staff employed within them.

Where the Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Current Additional Responsibilities and Safeguards

The Head of Internal Audit currently holds responsibility for the Anti-Fraud, Risk and Insurance departments. To safeguard independence and objectivity each department will be independently reviewed and/or audited by a third party at least every three years or more frequently if required. Each review/audit will be sponsored by an appropriate Corporate Director and the outcomes will be reported to senior management the Audit Committee.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Head of Internal Audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit service.

The Head of Internal Audit will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating the results.

Scope of internal audit activities

The scope of internal audit activities encompasses, but is not unduly limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, senior management, and appropriate outside parties on the adequacy and effectiveness of governance, risk management, and

control processes for the Council including any wholly or part owned/controlled companies, partnerships or similar arrangements.

Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
- The actions of the Council's members, employees, temporary staff and contractors are in compliance with the Council's policies, procedures, and applicable laws, regulations and governance.
- The results of operations, projects and/or or programmes are consistent with established goals and objectives.
- Operations, projects and/or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Head of Internal Audit will report periodically to senior management and the Audit Committee regarding:

- The internal audit service's purpose, authority, and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with the relevant Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Council.

Coordinating Activity

To avoid duplication and maximise assurance for the Council, the Head of Internal Audit will coordinate activities, where appropriate/possible, and will consider relying upon the work of other internal and external assurance and consulting service providers.

Consulting and Advisory Services

The internal audit service may perform consultancy and/or advisory and related client service activities, the nature and scope of which will be agreed with the client,

provided the internal audit service does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management. The outcome of consultancy and/or advisory services may be used by the Head of Internal Audit to inform the annual opinion.

Scope of Anti-Fraud, Risk and Insurance activities

The Head of Internal Audit currently hold responsibility for the Anti-Fraud, Risk and Insurance departments. The broad responsibilities of these departments includes, but is unduly limited to, the following:

- To promote an anti-fraud culture within the Council that aids the prevention and detection of fraud and similar crimes such as theft and corruption.
- To investigate allegations of fraud and similar crimes affecting the Council and its customers and report the outcome of those investigations to senior management and the Audit Committee as required.
- To promote and facilitate effective Risk Management.
- To promote and facilitate adequate insurance arrangements for the Council's employees and assets.

The Head of Internal Audit will report periodically to senior management and the Audit Committee regarding:

- Progress and results of anti-fraud activity and investigations (at least quarterly).
- Risk Management activity including, when appropriate, corporate and divisional risk registers and the Council's risk strategy (at least quarterly).
- Insurance activity (at least annually).

Responsibility

The Head of Internal Audit has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit and anti-fraud plan for review and approval.
- Communicate to senior management and the Audit Committee the impact of resource limitations on the annual plan.
- Review and adjust the annual plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls.
- Present an annual report to senior management and the Audit Committee that provides an overall opinion of the Council's governance, risk management and control processes.

- Communicate to senior management and the Audit Committee any significant changes to the annual plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable observations, conclusions and agreed management actions to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter, annual plan and/or individual engagements.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.
- Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Ensure the internal audit service's conformance with the Public Sector Internal Audit Standards, with the following qualification:
 - If the internal audit service is prohibited by law or regulation from conformance with certain parts of the Standards, the Head of Internal Audit will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.

Quality assurance and improvement programme

The internal audit service will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit services conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit service and identify opportunities for improvement.

The Head of Internal Audit will communicate to senior management and the Audit Committee on the internal audit service's quality assurance and improvement programme, including results of annual internal assessments and external assessments which will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council.

Last approved by the Audit Committee on 30 January 2020

Glossary

Definition of Internal Auditing

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

Assurance services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the Council. Examples may include financial, performance, compliance, system security and due diligence engagements.

Advisory and Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve the Council's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include advice, facilitation and training.

Senior Management

For the purposes of this charter and the Public Sector Internal Audit Standards the Corporate Leadership Team are defined as 'Senior management'.

The Board

For the purposes of this charter and the Public Sector Internal Audit Standards the Audit Committee are defined as 'The Board'.

Public Sector Internal Audit Standards

The Public Sector Internal Audit Standards are mandatory for local authorities. The standards, which are based on the mandatory elements of the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors (IIA), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

Governance

The combination of processes and structures implemented by the Council to inform, direct, manage and monitor the activities of the Council toward the achievement of its objectives

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the Council's objectives.

Control

Any action taken by management and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Code of Ethics

The Code of Ethics of the Institute of Internal Auditors (IIA) are principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing

Overall opinion

The rating, conclusion, and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management, and/or control processes of the organisation. An overall opinion is the professional judgment of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.

Non-Executive Report of the: Audit Committee Wednesday, 7 April 2021	
Report of: Janet Fasan, Director of Legal and Interim Monitoring Officer	Classification: Open (Unrestricted)
Code of Corporate Governance - Annual Review	

Originating Officer(s)	Matthew Mannion, Head of Democratic Services Joel West, Democratic Services Team Leader (Committees)
Wards affected	(All Wards);

Executive Summary

The Code of Corporate Governance sets out the Council’s commitment to uphold the highest standards of good governance.

The Code was first created in 2018 and has been reviewed each year since. This report presents the 2021 review version for comment and endorsement by the Committee.

Recommendations:

The Audit Committee is recommended 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.
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.

1. REASONS FOR THE DECISIONS

- 1.1 The Code of Corporate Governance forms an important part of the Council’s suite of governance controls and documentation. The Code is reviewed

annually and the Audit Committee is asked to review and endorse the content of the revised Code.

2. ALTERNATIVE OPTIONS

- 2.1 The Code has been produced in line with CIPFA best practice, but the Audit Committee is able to propose additions/alterations if considered appropriate. The Committee could also review the general style/layout of the Code and suggest improvements.

3. DETAILS OF THE REPORT

- 3.1 The Council's Annual Governance Statement produced by the Council each year, sets out its view on the effectiveness of the Council's Corporate Governance.
- 3.2 Corporate Governance is defined as the systems, processes and values by which local government bodies are directed and controlled.
- 3.3 One of the key documents consulted when preparing the Annual Governance Statement is the Code of Corporate Governance. The Code sets out the key documents, policies and activities that underpin the Council's work.
- 3.4 It does this by splitting Governance into 7 key themes (listed as A – G in the document) and then setting out against each one the relevant activities and documentation.
- 3.5 The Code of Corporate Governance was first created in 2018 and has been reviewed each year since that date. The Code is also published under the 'Transparency' section of the website.
- 3.6 In undertaking the review, officers from across the Council have been consulted as to the appropriate content of the Code. The final draft was then presented to CLT for senior leadership sign-off.
- 3.7 Note that the format/design of the Code has been updated for 2021 to take account of new accessibility requirements for web published content.

4. EQUALITIES IMPLICATIONS

- 4.1 The Code of Corporate Governance includes a number of key documents in the Council's work to tackle equalities issues such as the Borough Profile, Equality Analysis work and staff training programmes.
- 4.2 The layout and appearance of the Code for 2021 has been adapted to ensure it is accessible in line with public sector accessibility regulations. This means the Code can be read by those using adaptive software or tools (for example, those with impaired vision; motor difficulties; cognitive impairments or learning disabilities; deafness or impaired hearing).

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 Code of Corporate Governance helps demonstrate how the Council maintains awareness of many risks and implications set out above especially around Best Value, Data Protection and Risk Management.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Other than the requirements of the Accounts and Audit Regulations 2015 there are no specific financial implications arising from this report.

7. COMMENTS OF LEGAL SERVICES

7.1 The Accounts and Audit Regulations 2015 require a local authority to conduct an annual review of the effectiveness of their system of financial control and to prepare an annual governance statement. There is no statutory requirement for an annual review of the Code of Corporate Governance but conducting an annual review demonstrates best practice.

Linked Reports, Appendices and Background Documents

Linked Report

- Previous yearly update reports to the Audit Committee.

Appendices

- Appendix 1 - The Code of Corporate Governance 2021

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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TOWER HAMLETS

CODE OF CORPORATE GOVERNANCE

April 2021

Foreword

From Will Tuckley, Chief Executive

This Code of Corporate Governance sets out the commitment of the London Borough of Tower Hamlets to continue to uphold the highest possible standards of good governance. This is essential for ensuring we conduct our business in accordance with the law and proper standards and that public money is properly accounted for.

The Code of Corporate Governance is an important tool in showing our residents how the Council follows good practice to achieve the best outcomes we can for them.

The Code will be regularly reviewed to match our evolving corporate strategies and policies. Our Audit Committee has oversight for making sure that we are following the commitments in this document in order to deliver the highest standards of governance for our residents.

Introduction

Good governance is about how the Council ensures that it is doing the right things, in the right way, for the communities it serves, with particular regard to being open, inclusive and accountable.

Our Commitment

Tower Hamlets are committed to upholding the highest standards of good corporate governance.

The Governance Framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled and through which it accounts to, engages with and, where appropriate, leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

This Code of Corporate Governance is based on the following principles recommended by CIPFA/SOLACE in a joint document entitled 'Delivering Good Governance in Local Government' which builds on the seven Principles for the Conduct of Individuals in Public Life.

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

This document describes how the Council achieves the seven principles of good governance and describes how the Council's corporate governance arrangements will be monitored and reviewed.

Applying the Seven Core Principles

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Supporting principles:

- A1 Behaving with Integrity
- A2 Demonstrating Strong commitment to ethical values
- A3 Respecting the Rule of Law

The Council supports Principles A1 to A3 in the following ways:

- The Council's constitution sets out the rules under which the organisation must operate. This includes ensuring decisions are taken appropriately, by the correct body and with all relevant information presented.
- Section 24 of the Constitution sets out the role of the Monitoring Officer. The Divisional Director – Legal currently has this assigned role. The Monitoring Officer is responsible for dealing with many issues relating to integrity in decision making including around the work of the Standards (Advisory) Committee and Member Conduct.
- The Strategic Plan is the main strategic business planning document of the council. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the outcomes. The Strategic Plan outlines the Council's approach to tackling inequality and improving outcomes for residents and has tackling inequality at its core outlining the priorities and outcomes for reducing inequality and need in the borough.
- The Tower Hamlets Plan is the over-arching plan for the borough's local strategic partnership. Partners wanted to work together to identify creative and innovative new ways of delivering effective and efficient services and providing strategic leadership on complex, cross-cutting issues.
- There is a whistleblowing policy and it can be found on the intranet (The Bridge). It provides a route for officers to bring to the monitoring officers attention areas of malpractice.
- These reports and decisions are routinely published online to ensure transparency and Executive decisions are subject to the 'Call-In' process by backbench Councillors who have the opportunity to raise any concerns they may have.

- The Register of Interests (for officers and Members) and the requirement to declare interests at meetings ensure that potential issues are recorded and Members do not take part in meetings in an inappropriate way. This includes the need to leave the meeting when any items for which they have a Pecuniary Interest are discussed.
- Likewise, the Gifts and Hospitality register ensures that Members, co-optees and officers declare any relations with outside bodies that could be an issue.
- The Member Induction and Member Development Programmes ensure Members are aware of their responsibilities around good decision making and behaving with integrity. This programme includes committee specific training where required.
- Raising Awareness of Information Governance Regulations and Obligations as set out in the Council's procedures and framework.
- Promoting TOWER values which are important because they shape the culture and standards of the organisation.
- The Council's Legal Services are tasked with ensuring Council decision making is not ultra vires and follows relevant regulations and legal processes as required.

Supporting documentation and evidence of compliance for Principles A1 to A3:

- The Council's Constitution including sections on:
 - Officer code of conduct
 - Member code of conduct
 - Member Officer Relations Protocol
 - Scheme of Delegation
- Register of Interests and Declarations at Meetings
- Gifts and Hospitality Register
- Cabinet, Council and Committee reports online
- Member Induction and Development Programme
- Strategic Plan
- Tower Hamlets Plan
- Borough Equality Assessment
- Equality Policy
- Whistleblowing Policy

- Corporate and Statutory Complaints Procedures
- Information Governance Framework, including Data Protection, Information Security and Computer Use Policies.
- Social Media Policy
- TOWER values and new Competency Framework
- Investors in People accreditation
- Declarations of interest and secondary employment for officers
- Grievance Policy
- Disciplinary Policy
- Combatting Harassment and Discrimination Policy
- Supply Chain Ethical Code of Conduct

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Supporting principles:

- B1 Openness
- B2 Engaging comprehensively with institutional stakeholders
- B3 Engaging with individual citizens and service users effectively

The following items are applicable to all three strands of Core Principle B

The Council supports Principles B1 to B3 in the following ways:

- Publishing a Constitution setting out the Council's governance and decision-making arrangements.
- All formal decision-making meetings have agendas, reports and minutes which are published on the Council's website and available to anyone through the Mod.Gov tablet app.
- The Council publishes and maintains a constantly updating list of important Executive decisions on the Council's website. This includes reports for Cabinet and any other key Executive decisions.
- The Council's Overview and Scrutiny Committee engages stakeholders, residents and community groups to review services and drive improvement in service delivery. The Overview and Scrutiny Committee co-opts residents with relevant knowledge onto the Committee and encourages residents to attend its meetings, which are open to the public and webcast. Further, residents, community groups and expert witnesses are invited to participate in Scrutiny review and challenge sessions so the Committee can hear directly from those whose interest are represented.
- The Council has updated its Overview and Scrutiny Toolkit is to provide officers, Members, stakeholders and local communities with guidance and advice on how the scrutiny function works at Tower Hamlets. The Toolkit clarifies processes so residents know how they can get involved. Through the Council website residents can also suggest areas for review by scrutiny. https://www.towerhamlets.gov.uk/ign/council_and_democracy/Overview-and-scrutiny.aspx
- The Strategic Plan is the main strategic business planning document of the council. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the outcomes. The Strategic Plan outlines the Council's approach to tackling inequality and improving outcomes for residents and has tackling inequality at its core outlining the priorities and outcomes for reducing inequality and need in the borough.

- The Intelligence & Performance and Communications teams provide advice on designing, running and analysing consultations and surveys to Officers around the Council, using the Council's consultation and engagement hub with its various engagement tools. The Council actively engages specific groups depending on the nature of the consultation / survey. The Council commissions a specialist market research company to undertake its Annual Resident Survey with key findings made public.
- The Council has an established voluntary and community sector strategy and a Local Community Fund and Small Grants Programme, which has been developed in co-production with the VCS.
- The Tower Hamlets Plan sets out how we will work with our key strategic partners through the Tower Hamlets Partnership and sub groups to deliver cross cutting actions for the borough.
- The Council belongs to a range of public sector information sharing networks for example sharing performance data for benchmarking and improvement with London LAs through London Councils. We are working with the GLA to develop London level data analysis, and with our health partners through a partnership board Tower Hamlets Together.
- The Council makes use of modern committee management software to support the efficient and transparent publication of all information related to the Council's decision-making functions including Councillor contact details, registers of interest, agendas, petitions, ways to get involved and similar.
- The Council maintains a public register of Members interests and declarations made at meetings. These are published on the Council website.
- Freedom of Information processes to allow for the submission and publication of Freedom of Information requests
- Complaints systems to allow residents to challenge the Council.
- Use of the Open Government Licence for Public Sector Information ensures that people can make use of our data without having to apply for permission.

Supporting documentation and evidence of compliance for Principles B1 to B3:

- The Council's Constitution
- Publication of committee agendas and minutes of meetings.
- Forward Plan
- Committee software system
- Register of Members' Interests

- Strategic and Business Plans
- Tower Hamlets Plan
- Scrutiny Committee reports to Council
- Scrutiny Toolkit
- Strategic Plan (equalities embedded) Equality Analysis
- Annual Residents' Survey and other surveys
- Range of consultations
- Borough Profile
- Co-production Framework
- Tower Hamlets Together Board and Joint Commissioning Executive
- Freedom of Information Publication and Disclosure Log
- Publication Scheme
- Corporate Complaints Procedure and Statutory Complaints Procedures
- Customer Contact Centre and Complaints Procedure
- Staff Training and Development
- Engaging staff forums
- Change Champions (i.e. Your Voice Ambassadors)
- Youth Council and Young Mayor
- Annual Statement of Accounts
- Medium Term Financial Strategy and regular MTFS reports
- The Internal Audit function
- The role of the Audit Committee
- Open Government Licence for Public Sector Information
- Expected Standards for responding to residents/customers
- A range of communication channels including digital infrastructure (website, social media, newsletter, plasma screens in Idea Stores and other buildings), physical infrastructure (street advertising, vehicle advertising) and print (Our East End).
- Partnership Boards and their Terms of Reference/ Structures/ Minutes) (including for example Health and Wellbeing Board, Community Safety Partnership Board, Tower Hamlets Together Board Safeguarding Adults Board, Safeguarding Children's Partnership Board, Children and Families Executive.

Core Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits

The Council supports Core Principle C in the following ways:

- The Council has an established voluntary and community sector strategy and a Local Community Fund which has been developed in co-production with the VCS and Small Grants Programme to support a vibrant local VCS.
- The Strategic Plan is the main strategic business planning document of the council. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the outcomes. The Council has a structured set of plans which turn our vision into actions, through Directorate, Key Council Strategies and Business Plans.
- Works with key partners in the Tower Hamlets Partnership Executive Group to identify and deliver on borough wide social, economic and environmental outcomes the Tower Hamlets Partnership partners are seeking to achieve.
- The report templates for all Council, Cabinet and Committee reports contains specific sections to highlight key risks such as those around equalities, environment, crime etc.
- The Council has a clear vision of the quality and nature of service delivery which we need to provide to meet the needs of our local community. To do this, ongoing investment needs to be made to our staff through our People Strategy.
- The Council's Local Plan sets out the spatial vision for the borough and when supplemented by our planning policies puts in place the tools for how the council works with stakeholders to shape the built environment to deliver economic, social and environment outcomes identified within the strategic and TH Plan.
- These documents are further complemented by a range of key strategies which also set out clear economic, social and environmental outcomes.
- The Council is committed to sustainable development and has a Climate Change and Air Quality Strategy, Carbon Management Plan, Air Quality Action Plan to improve environmental outcomes for local residents. We also have in place a Transport Strategy which promotes sustainable transport and a Waste Strategy which promotes waste reduction which complements our environmental objectives.
- The council is committed to maximising the benefit of economic growth and ensuring the benefits from this growth are shared amongst those who live and work in the borough. Our Growth Plan seeks to improve the employment outcomes for residents and support the growth of businesses operating and is supplemented by our High Streets and Town Centre Strategy.

- Our Housing Strategy puts in place a range of actions to improve access to housing of all tenures, prioritising the delivery of affordable homes and seeks to improve the quality and condition of housing across the Borough. This is supplemented by our Homelessness and Rough Sleeping strategy which sets out the council's priorities
- for tackling homelessness and rough sleeping over the next five years.
- This cannot be done alone, and the Tower Hamlets Housing Forum is a partnership between housing associations and the Council to deliver on our housing, social and environmental and economic objectives.
- The Community Safety Partnership Plan 2017-21 sets out how we will make Tower Hamlets a safer and more cohesive place to live.
- These outcomes as they relate to Children and Families are addressed in various strategies and by children's partnership boards

Supporting documentation and evidence of compliance for Core Principle C:

- Voluntary and Community Sector Strategy
- Strategic Plan and Business Plans
- [Community Engagement Strategy](#)
- Risk Implications in all reports
- Local Plan 2031: and related Planning policies and documents
- Growth Plan
- High Street and Town Centre Strategy
- Air Quality and Climate Change Strategy
- Air Quality Action Plan
- Biodiversity Action Plan
- Transport Strategy
- Waste Management Strategy
- Our East End
- Financial and Budget Planning Consultations
- Risk Management Policy and Procedures
- Corporate Risk Register
- Annual Statement of Accounts

- Quarterly and annual finance and performance reporting being presented alongside one another
- Capital Strategy
- The work of the external auditors
- Housing Strategy
- Tower Hamlets Housing Forum
- Self-Build Policy
- Homelessness and Rough Sleeping Strategy
- Community Safety Partnership Plan
- Health and Wellbeing Strategy
- Substance Misuse Strategy
- Mental Health Strategy
- Violence Against Women & Girls Strategy
- Safeguarding Adults Board Strategy
- Suicide Prevention Strategy
- Children and Families Strategy 2019-24
- Special educational needs and disability (SEND) Strategy.

Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Supporting principles:

- D1 Determining Interventions
- D2 Planning Interventions
- D3 Optimising Achievement and Intended Outcomes

The following items are applicable to all three strands of Core Principle D

The Council supports Principles D1 to D3 in the following ways:

- Decision making processes that receive objective and rigorous analysis including involvement of the Monitoring Officer and the Section 151 Officer with all reports having set sections for legal and finance comments and all reports requiring final finance and legal clearance before publication.
- Council, Cabinet and Committees receive regular reports on performance monitoring, the strategic plan and other policies and procedures to demonstrate the level to which intended outcomes are being achieved and any interventions planned to address issues.
- Our Strategic and Business Plans have a clear vision of the economic, social and environment of the borough, which has been informed by extensive analysis of key data, service intelligence and national and regional policy.
- The Council's Corporate Portfolio Management Office is responsible for setting standards for programme and project management to make sure we can be excellent in delivering change.
- The Council's Performance Management and Accountability Framework (PMAF) sets out our approach to monitoring, managing and improving performance. It sets out roles and responsibilities and establishes certain governance structures. It sets the framework within which individual Directorates and services should manage performance and how issues are escalated. Performance Improvement Board is the main board responsible for identifying and determining interventions to bring about improvements at strategic level.
- We are committed to undertaking needs assessments that provide evidence for areas where service improvement may be required. Our Joint Strategic Needs Assessments (JSNA) helps us and our health partners understand resident's needs relating to health inequalities and improving health and wellbeing. In addition, the Borough Profile provides data and analysis in a range of topic areas such as crime, housing, income, jobs, education, supporting practitioners and policy

officers to identify interventions necessary to achieve outcomes. We use the Borough Profile to develop a Borough Equality Assessment which enables us to set our equality objectives.

- The Council prepares an Annual Governance Statement that assesses the Council's governance framework and identifies areas for improvement. This is presented to the Audit Committee each year and included in the Council's Statement of Accounts.
- The Council's Emergency Planning works to ensure the Council can react quickly and robustly to any emergency situation effecting residents or its own ability to provide services. A number of plans have also been prepared on a multi-agency basis to deal with specific threats.
- Internal Audit, who are outcome, focused and providing assurance opinions on the effective management of risk leading to the organisational achievement of outcomes and priorities

Supporting documentation and evidence of compliance for Principles D1 to D3:

- Constitution containing the scheme of delegation and financial regulations
- Strategic and Business Plans
- Co-Production Framework
- Community equality and engagement groups
- Scrutiny Committees
- Corporate Leadership Team
- Performance Management and Accountability Framework
- Needs Analysis such as Borough Profile and Joint Strategic Needs Assessments
- Quarterly and annual finance and performance reports
- Cabinet and Committee agendas and reports.
- Legal and Financial clearance of all relevant reports
- Annual Governance Statement
- Standards for Managing Employee Performance
- Performance Development and Review Scheme
- Borough Major Emergency Plan
- Multi Agency Plans
- Business Continuity Policy

- Budget Setting and approval process
- Risk Management Framework
- Business Plans and Consultations and Savings Tracker
- Risk Management Policy

Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Supporting principles:

- E1 Developing the entity's capacity
- E2 Developing the capability of the entity's leadership and other individuals

The Council supports Principles E1 and E2 in the following ways:

- Constitution is published on the website and has been reviewed within the last year. It contains many relevant sections including the Scheme of Officer delegations, Terms of References for committees and panels, Member and Officer Codes of Conduct and the Member / Officer relations protocol.
- The Corporate Leadership Team (CLT), Cabinet, Council and Committees receive reports on how the Council is performing and to highlight areas of weaker performance. CLT in particular receive regular reports on matters of performance. In addition, the CLT also have a specific CLT Transformation Board to examine these sorts of issues.
- The Overview and Scrutiny Committee has reviewed its processes and has implemented recommendations to further strengthen its effectiveness and support a culture of Overview and Scrutiny throughout the Council. This review also takes place at the end of each municipal year
- New members are supported through an induction programme to scrutiny, which includes effective questioning techniques and training throughout the year, covering budget scrutiny, performance reporting and one-to-one chairing skills. Further, scrutiny Members are provided with tools, advice and guidance through a scrutiny toolkit.
- Key to the Overview and Scrutiny Committee's effectiveness is a well-developed work programme.
- The Partnership Governance structure includes a Partnership Executive Group led by the Mayor with chief officers from key local partner organisations and a range of Partnership groups/ board including statutory boards.
- The partnership agreed a borough wide Plan 'Tower Hamlets Plan' to provide system wider leadership on few priority areas that needed improvement
- Led by CLT and managed by the Corporate Portfolio Management Office, the Council's Transformation programme is called SMARTER TOGETHER. Focusing on ensuring the Council is more agile, leaner, and strategic to achieve the best outcomes with our limited resources.

- A comprehensive programme of member induction sessions was provided after the Local Elections. These are being followed by an ongoing member development programme. The programme provides annual updates on mandatory training areas, opportunities for training in specialist portfolio areas as well as personal development for members. In addition, training can be provided for ad-hoc issues as they become apparent.
- Members have been provided with an online portal giving them access to many useful documents and links to assist them in carrying out their roles.

Supporting documentation and evidence of compliance for Principles E1 and E2:

- The Council's Constitution, including:
 - Scheme of Delegation
 - Committee Terms of Reference
 - 'Other Bodies' Terms of Reference
 - Member Code of Conduct
 - Officer Code of Conduct
 - Member Officer Relations Protocol
- Partnerships Governance Structure
- Tower Hamlets Plan
- Partnership Annual Report
- Smarter Together Transformation Programme
- Corporate Portfolio Management Office Scrutiny Committees
- Reports to CLT, Cabinet, Council and Committees
- Member Induction Programme and wider Member Development Programme
- Members' Hub
- People Resource Plan
- Corporate Training Programme
- PDP/PDR Process
- Job descriptions and person specifications
- Continuous professional development for officers
- Secondment policy

- Recruitment and Selection Policy and Toolkit
- Workforce Development Strategies
- Corporate Induction and wider induction policies
- TOWER values and new Competency Framework
- Quarterly and annual finance and performance reporting being presented alongside one another
- Corporate Risk Register
- Role of Internal Audit
- Business Planning Processes
- Employee Assistance Programme.

Core Principle F: Managing risks and performance through robust internal control and strong public financial management

Supporting principle F1 Managing risk

The Council supports Principle F1 in the following ways:

- The Council's Constitution sets out the Council's decision making in relation to Financial Management including through the Budget and Policy Framework, Key Decisions and Officer Schemes of Delegation.
- All report templates contain sections to highlight the risks associated with the proposals set out in the reports.
- The Council ensures that responsibilities for managing individual risks are clearly allocated, and the Corporate Risk register is reported to and reviewed by the Council's Corporate Leadership Team and Audit Committee on a regular basis.
- The Council has recently reviewed its whistleblowing policy which the Audit Committee has agreed. There is a related whistleblowing section on the Council's intranet.
- The Council's Emergency Planning works to ensure the Council can react quickly and robustly to any emergency situation effecting residents or its own ability to provide services. A number of plans have also been prepared on a multi-agency basis to deal with specific threats.

Supporting documentation and evidence of compliance for Supporting Principle F1:

- The Council's Constitution
- Performance dashboards, scorecards and reports
- Quarterly and annual finance and performance reporting being presented alongside one another to Overview and Scrutiny Committee and Cabinet
- Cabinet and Committee Report Templates
- Risk Reports to CLT, DLT's and Committees
- Data Sharing Agreements
- Information Governance Framework
- Whistleblowing Policy
- Borough Major Emergency Plan

- Multi Agency Plans
- Business Continuity Policy
- Publishing spend exceeding £250
- Risk Management Strategy and Toolkit
- Corporate Risk Register
- Regular risk management reports to the Audit Committee
- Internal Audit Plan, annual report and recommendations tracker
- Anti-Fraud and Corruption Strategy and Action Plan
- The role of external audit
- Risk Champions Group
- Audit Committee
- Risk reports to Committees
- Project Management Framework
- Financial Regulations.

Supporting Principle F2 Managing performance

The Council supports Principle F2 in the following ways:

- The council makes decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook.
- Quarterly strategic performance monitoring of the strategic plan and strategic outcome measures is a separate agenda item for the Overview and Scrutiny Committee.
- Members and senior management are provided with regular reports on performance and progress towards outcome achievement.

Supporting documentation and evidence of compliance for Principle F2:

- Scrutiny Committees

- Performance Management & Accountability Framework
- Performance, dashboards, scorecards and reports
- Customer Feedback
- Committee agendas, reports and minutes
- Cabinet and Committee report templates
- Quarterly and annual finance and performance reporting being presented alongside one another
- Savings Tracker
- Business Development Team
- Internal Audit Reports

Supporting principle F3 Robust internal control

The Council supports Principle F3 in the following ways:

- Reports to Council, Cabinet and Committees are required to set out key implications information in areas such as risk, equalities and environmental impact.
- The Audit Committee is responsible for considering the Council's arrangements for governance, risk management and internal control and recommends any actions accordingly. It receives a number of relevant reports such as internal and external audit plans, reports from internal and external audit, anti-fraud and corruption initiatives, risk management arrangements and similar. The Committees full terms of references are provided in the Council's Constitution.

Supporting documentation and evidence of compliance for Principle F3:

- Annual Governance Statement
- Reports to Council, Cabinet and Committees of the Council with implications provided that are clear and measured.
- Anti-Fraud and Corruption Policy
- Anti-Money Laundering Policy
- Internal Audit
- Internal Audit progress and Outcome Reports

- Risk Management Policy
- Risk Management Procedures
- Corporate Risk Register
- Audit Committee.

Supporting principle F4 Managing data

The Council supports Principle F4 in the following ways:

- The Council operates to expected Data Protection, information security and records management policies in accordance with the Data Protection Act 2018 and General Data Protection Regulation (GDPR) 2016.

Supporting documentation and evidence of compliance for Principle F4:

- Partnerships Governance
- Data Protection Policy
- Freedom of Information/EIR
- Information Security Incident Policy
- Records Management Policy
- Information Handling Policy
- Senior Information Risk Owner
- Data Protection Officer
- Data Sharing Agreements
- Data protection impact assessments

Supporting principle F5 Strong public financial management

The Council supports Principle F5 in the following ways:

- Overview And Scrutiny Committee has a crucial role in budget scrutiny. This includes reviewing and scrutinising the Council's annual allocation of financial resources to different services and projects, according to the Council's strategic priorities. This includes reviewing the treatment of risk, setting the council tax, and decisions relating to the control of the Council's borrowing, the control of its capital expenditure and the setting of virement limits.
- The Overview and Scrutiny Committee on a quarterly basis also reviews budget monitoring and performance monitoring reports to provide challenge and identify areas further work by scrutiny
- Residents, businesses and key stakeholder's views relating to the budget consultation are analysed alongside other intelligence which is then used to inform decision-making.
- Budget monitoring reports are presented to Cabinet and are published on the Council's website allowing residents to see how the Council is performing against expected budgets and planned savings.
- Reports to Council, Committees, Cabinet and CLT include financial implications and CFO comments and clearance.
- The Audit Committee is responsible for considering the Council's arrangements for financial management and to recommend any actions accordingly. It receives regular reports such as internal audit plans, risk management arrangements, treasury management strategies and it approves the Council's Statement of Accounts.

Supporting documentation and evidence of compliance for Principle F5:

- Scrutiny Budget Meetings
- Budget Consultations
- Regular Budget monitoring reports published in Cabinet and overview and scrutiny agendas
- Financial Regulations
- Quarterly and annual finance and performance reporting being presented alongside one another
- Business Plans
- Business Planning Process
- Budget Holders and Finance Business Partners Handbook
- Objection Timetable
- External Auditors

Core Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

The following items are applicable to the four strands of Core Principle G

Supporting principle G1: Implementing good practice in transparency

The Council supports Principle G1 in the following ways:

- The Council has a published constitution setting out how decisions are taken and how the public can get involved in decision making, including Access to Information, Petitions and ways of getting involved in decision making.
- Key data, statistics and horizon scanning of policy is produced to support the Overview and Scrutiny Committee in their work programming. Overview and Scrutiny Committee work programme published.
- Having a defined process to ensure that reports for the public / stakeholders are fair, balanced and easy to access and understandable for the audience
- The Council seeks to write and communicate reports and other information for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.
- The Council webcasts it's Council, Cabinet, Development Committee, Strategic Development Committee and Overview and Scrutiny Committee meetings to ensure full transparency of the meetings. Since June 2020, the Council has held meetings remotely and during this time all committee and sub committee meetings have been webcast.
- The Council's maintains an up-to-date website which provides a mechanism for the Council to publish information important in ensuring transparency of its actions.
- The Council has recently reviewed its whistleblowing policy which the Audit Committee has agreed. There is a related whistleblowing section on the Council's intranet.

Supporting documentation and evidence of compliance for Principle G1:

- The Council's Constitution
- Annual Work Programme of Scrutiny Committees

- Agendas and minutes of Cabinet and Committee Meetings
- Agendas and minutes of Scrutiny and relevant Committees published
- The Executive Forward Plan
- Meeting Webcasts
- Transparency Code
- Data Sharing Agreements
- Publication Scheme
- The Council's Website
- Whistleblowing Policy
- Gender Pay Gap reporting
- Internal Audit Plan, annual report and recommendations tracker
- Anti-Fraud and Corruption Strategy and Action Plan
- External Audit Reports
- Annual Governance Statement
- Communications ensuring residents are informed of key issues, decisions and consultations.
- Safeguarding Adults Board Annual Report
- Local Account in adult social care
- Tower Hamlets Safeguarding Children Partnership Annual Report
- Special educational needs and disability (SEND) annual report

Supporting principle G2 Implementing good practice in reporting

The Council supports Principle G2 in the following ways:

- The Council's constitution sets out the terms of reference of all committees to ensure information is presented to the appropriate committees. Access to information rules set out how the Council maintains good public access to information and reports.
- There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities.

- Each Committee has a workplan or similar forward programme including expected monitoring reports.

Supporting documentation and evidence of compliance for Principle G2:

- Partnerships Governance Guidance
- Committee agendas, reports minutes and work plans.
- Constitution including Committee Terms of Reference and Access to Information Rules
- Quarterly and annual finance and performance reporting being presented alongside one another
- Statement of Accounts
- Annual Governance Statement
- Annual External Audit Report and Letter
- Internal Audit Reports

Supporting principle G3 Assurance and effective accountability

The Council supports Principle G3 in the following ways:

- Having processes to ensure external / internal audit recommendations are acted upon / responded to by managers and the Council (G3 & G4)
- There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities.
- As part of our extensive improvement journey since 2014, the Council has taken part in a tailored Peer Challenge managed by the LGA. We take part in service specific peer reviews – for example a peer review of our planning service took place in 2018-19.
- The Council uses the results from external inspections to action plan improvements. There is an extensive improvement structure in the Council including Member oversight and Officer operational groups.
- As the Council's senior decision-making body tasked with overseeing this work, the Audit Committee, and any other relevant non-executive committee including Scrutiny, can report up to it any concerns they have regarding actions that have not been

undertaken. Council is also a forum for members and the public to formally raise concerns that meeting may direct the Council to act upon.


Supporting documentation and evidence of compliance for Principle G3:

- Role of Internal and External Audit
- Audit Committee
- Risk Management Procedures
- Peer Reviews
- Results of External Inspections (Ofsted, CQC, ICO etc)
- Partnerships Governance Guidance
- Council Meetings

Supporting principle G4 Managing data.

See supporting documentation for G1 and G3.

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Non-Executive Report of the: Audit Committee Wednesday, 7 April 2021	 TOWER HAMLETS
Report of: Janet Fasan, Divisional Director of Legal Services and Interim Monitoring Officer	Classification: Open
Annual Review of the London Borough of Tower Hamlets Anti-Money Laundering Policy and Guidance	

Originating Officer(s)	Rachel Mckoy, Head of Commercial and Contracts
Wards affected	(All Wards)

Executive Summary

This report recommends that the Audit Committee notes and approves the attached Council Anti-money Laundering Policy and Guidance ('the AML Policy') that all Council employees will be provided and expected to comply with.

The Council views compliance with the money laundering legislation as a high priority and aims to develop a robust and vigilant anti-money laundering culture.

The AML Policy sets out the:

- statutory provisions on money laundering;
- procedures that must be followed to enable both the Council and its employees to comply with their legal duties to prevent and address suspected money laundering; and
- role of the Council's Money Laundering Reporting Officer ('MLRO') in facilitating compliance with the AML Policy.

Recommendations:

The Audit Committee is recommended to:

1. note and approve the Council's AML Policy;
2. note the Equalities Impact Assessment / specific equalities considerations as set out in Paragraph 4.

1. REASONS FOR THE DECISIONS

- 1.1 The Audit Committee is responsible for Anti-Fraud and Corruption arrangements as part of its Terms of Reference. The AML Policy is reviewed on a regular basis in order to provide assurance that the Council's approach to anti-money laundering complies with relevant statutory provisions, best

practice requirements and professional guidance and is approved by the Audit Committee.

2. ALTERNATIVE OPTIONS

2.1 Not applicable. There are no alternative options available.

3. DETAILS OF THE REPORT

3.1 The Council is required to ensure that appropriate arrangements and processes are in place for the monitoring and reporting of any instances of suspected money laundering operations and that Council employees are both aware of these arrangements and their duties to prevent money laundering in the course of their employment.

3.2 The AML Policy sets out these arrangements and processes so that all employees are clearly aware of their statutory duties and obligations in this regard and the potential legal consequences of a failure to comply with the law as set out in the AML Policy.

3.3 The AML Policy sets out the:

- Context of money laundering and how money launderers may target local councils in any money laundering operations;
- statutory provisions on money laundering, including the Proceeds of Crime Act 2002 (Paragraph 6.1 of the Policy), the Terrorism Act 2000 (Paragraph 6.2 of the Policy), the Money Laundering Regulations 2007 (Paragraph 6.3 of the Policy), the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (Paragraph 6.4 of the Policy) and the Money Laundering Regulations 2020 (Paragraph 6.5 of the Policy);
- procedures that must be followed to enable both the Council and its employees to comply with their legal duties to prevent and address suspected money laundering in terms of disclosing any suspected money laundering; and
- role of the Council's Money Laundering Reporting Officer ('MLRO') in facilitating compliance with the AML Policy.
- amendments to the previous reference to the Serious Organised Crime Agency ('SOCA') to what is now the National Crime Agency ('NCA') for the purpose of disclosing knowledge or suspicion of money laundering (Paragraph 5.1.1 (iv) of the Policy).
- the Policy also includes reference to the General Data Protection Regulation 2016 (as amended) ('GDPR') to cover the right of access by the data subject and request for information by external customers (Paragraph 8.1 of the Policy).

4. EQUALITIES IMPLICATIONS

- 4.1 The approval of the AML Policy will have no adverse implications for groups who share protected characteristics as defined in section 4 of the Equality Act 2010. Officers are also satisfied that s149 of the Equality Act that sets out the Public Sector Equality Duty has been duly considered and complied with in the drafting of the AML Policy and that approval of the AML Policy by the Audit Committee will also satisfy the relevant requirements of the Equality Act 2010 in this regard.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 There are no other statutory implications that arise in relation to the proposed recommendations in this report and to the application of the AML Policy.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 There are no direct financial implications arising from the recommendation in this report.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The report is presented for the purpose of noting and approving the Council's proposed policy and guidance on anti-money laundering and sets out the relevant law and procedures in place for employees to be able to address suspected cases of money laundering in the course of their employment. There are no immediate legal implications arising from the recommendations proposed in this report.
- 7.2 The proposed policy and guidance on anti-money laundering correctly notes the current statutory provisions and is subject to further review by the Audit Team to align the policy with the council's current corporate risk profile.

Linked Reports, Appendices and Background Documents

Linked Report

- London Borough of Tower Hamlets Anti Money Laundering Policy and Guidance

Appendices

- **Appendix 1 – Anti-money Laundering Policy**

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

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

Officer contact details for documents:

Rachel Mckoy, Head of Commercial & Contracts, 0207 364 2435

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LONDON BOROUGH OF TOWER HAMLETS

**ANTI-MONEY LAUNDERING POLICY
AND GUIDANCE**

**LONDON BOROUGH OF TOWER HAMLETS
ANTI-MONEY LAUNDERING POLICY AND GUIDANCE**

- 1. THE SCOPE OF THIS POLICY**
- 2. INTRODUCTION - WHAT IS MONEY LAUNDERING?**
- 3. THE LAUNDERING PROCESS**
- 4. HOW THE COUNCIL COULD BECOME INVOLVED**
- 5. CONSEQUENCES**
- 6. THE RELEVANT LAW**
 - 6.1 The Proceeds of Crime Act 2002 (POCA)**
 - 6.2 The Terrorism Act 2000**
 - 6.3 The Money Laundering Regulations 2007 (the Regulations)**
 - 6.4 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the Regulations)**
 - 6.5 The Money Laundering Regulations 2020**
- 7. RELEVANT GUIDANCE-ASSESSING RISK**
- 8. CUSTOMER DUE DILIGENCE PROCEDURES**
 - 8.1 The legal requirement**
 - 8.2 The identification and verification process**
 - 8.3 Enhanced customer due diligence**
 - 8.4 Politically exposed persons**
 - 8.5 Ongoing monitoring**
 - 8.6 Exemptions from the identification process**
- 9. INFORMATION MANAGEMENT ISSUES**
- 10. MAKING A DISCLOSURE**
- 11. LEGAL PROFESSIONAL PRIVILEGE**
- 12. AFTER A DISCLOSURE HAS BEEN MADE**
- 13. TIPPING OFF**
- 14. WHAT IS SUSPICIOUS?**
- 15. RECORD KEEPING PROCEDURES**
- 16. TRAINING**
- 17. SUMMARY OF RESPONSIBILITIES**
- 18. CONFIRMATION SLIP**

APPENDIX A - Customer Identification checklists

APPENDIX B - Identity Verification Forms

APPENDIX C - Disclosure forms

IT IS OUR POLICY TO ENSURE THAT THE COUNCIL AND ITS OFFICERS AND EMPLOYEES ARE COMMITTED TO COMPLYING WITH ALL LEGISLATION AND APPROPRIATE GUIDANCE DESIGNED TO COMBAT MONEY LAUNDERING AND TERRORISM ACTIVITIES.

1 THE SCOPE OF THIS POLICY

- 1.1 This Policy applies to all officers and employees of London Borough of Tower Hamlets (**the Council**) and the Council's Arms Length Management Organisation ('ALMO'), Tower Hamlets Homes. The Policy sets out the procedures that must be followed to enable the Council to comply with its legal obligations and the consequences of not doing so. Within this policy the term 'persons' shall be used to refer to all officers and employees, both permanent and temporary, of the Council.
- 1.2 All persons must be familiar with their legal responsibilities. **Failure to comply is a criminal offence.**
- 1.3 The Council views compliance with the money laundering legislation as a high priority and aims to develop a robust and vigilant anti-money laundering culture. Money launderers are seeking to infiltrate reputable organisations including local authorities. Organisations perceived as having weak controls will be targeted first. Significant damage will be caused to the Council's reputation if it were to be associated, however innocently, with laundering the proceeds of crime, particularly if a person working within the Council was subsequently prosecuted.
- 1.4 Even if the Council is used as an innocent vehicle for money laundering, the cost of being involved in an investigation, both in terms of legal monetary fees, business disruption and overall reputational damage would be considerable.

- 1.5 It is therefore essential that all persons follow the Council's money laundering procedures in this Manual to ensure compliance with the relevant statutory regulations.
- 1.6 Failure by any person to comply with the procedures set out in this Policy may also lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary Policy and Procedure.
- 1.7 All persons will be provided with a copy of this policy and are required to sign to confirm that they have received, read and understand the policy.
- 1.8 The Money Laundering Reporting Officer (**MLRO**) is Kevin Bartel, Interim Corporate Director of Resources (s151 officer) , **Corporate Anti-Fraud Manager** who is responsible for the day to day implementation and monitoring of this policy. However, all key senior officers recognise that they are ultimately responsible for ensuring that the Council's control processes and procedures are appropriately designed and implemented and effectively operated to reduce the risk of the Council being used in connection with money laundering or terrorist financing.
- 1.9 This Policy should be read in conjunction with the Council's Anti-fraud and Corruption strategy.
- 1.10 This Policy Guidance is updated incorporating amendments made to the Terrorism Act 2000, the Proceeds of Crime Act 2002 and the Money Laundering Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 as a result of the European Union's (EU) 5th Money Laundering Directive (Directive (EU) 2018/843) which came into force on 30 May 2018 and the exit of the United Kingdom from the European Union on 31 December 2020. These amendments were made by the Money Laundering and Terrorist Financing (Amendment) Regulations 2019 SI 2019 No 1511 and the Money Laundering and Terrorist Financing (Amendment) (EU Exit) Regulations 2020 SI 2020 No 991 respectively.

2 INTRODUCTION - WHAT IS MONEY LAUNDERING?

- 2.1 The phrase 'money laundering' means the process by which the identity and true ownership of 'dirty money', i.e. the proceeds of any crime, is changed so that these proceeds appear to originate from a legitimate source.
- 2.2 Most crime, for example the drugs trade, is almost wholly cash driven. For many years, the most common means of laundering money was to deposit large sums of cash at banks. However, as the high street banks have tightened their controls in this area, the launderers have turned to more obscure methods, frequently involving buying and selling assets, property and businesses, often via complex transactions, sometimes across geographical boundaries, to achieve their aims. This has made it much more difficult for the enforcement authorities to detect and prevent money laundering.
- 2.3 If you are involved, in any way, in dealing with or facilitating an arrangement with regard to 'criminal property', you are engaged in the offence of money laundering. 'Criminal property' is the proceeds of *any* crime under UK law. It is not limited to dealing in cash. If you handle the benefit of acquisitive crimes such as theft, fraud and tax evasion, or are involved in handling or processing stolen goods or assets purchased with the proceeds of crime, from cars to paintings and antiques, you are money laundering.
- 2.4 Terrorists also need to launder money to fund their criminal enterprises. The atrocities of 9/11 and terrorist bombings in London in July 2005 have focused attention on the need to enforce anti-money laundering rules to combat terrorists, as well as drug dealers and organised crime.
- 2.5 All regulated businesses must to adopt a risk-based approach, taking into account the contents of their practice-wide risk assessment, policies and procedures (and where necessary updating them) and the circumstances of business transactions. This will be implemented and overseen by the MLRO.
- 2.6 As well as changes to how we live our lives, COVID-19 is also changing the economy. An economic downturn may make individuals and businesses more susceptible to financial difficulties or other pressures, which creates risk and potential weaknesses for criminals to exploit. As the UK economy enters a period of uncertainty, employees must be particularly alert to the dangers of money laundering.

3 THE LAUNDERING PROCESS

- 3.1 The money launderer will seek to launder 'dirty money' via a series of transactions to separate the direct (usually cash) proceeds of an offence from the final bank account. Passing the funds through different accounts/investments and transferring it into different guises helps to muddy the audit trail.
- 3.2 There are three distinct, recognised phases to the laundering process:-
- 3.2.1 **Placement** - the initial disposal of cash representing the proceeds of crime into the system by deposit at a bank or similar but increasingly likely to involve the purchase of property, or other assets such as a business.
 - 3.2.2 **Layering** - to break any link back to the direct proceeds of the crime. This is done by a variety of routes, including buying and selling properties, companies or assets (such as shares, antiques and art) back to back and transferring funds around the world via various accounts in many institutions. Often launderers will use a front company, carrying on legitimate business, to hide their illegal activities.
 - 3.2.3 **Integration** – having gone through the transaction merry-go-round, the funds can come back to the individual criminal or their organisation, to finance a luxurious lifestyle, purchasing property, expensive cars, income-generating securities etc. and perhaps to fund further criminal activity.

4 HOW THE COUNCIL COULD BECOME INVOLVED IN MONEY LAUNDERING

- 4.1 The Council carries out transactions for a variety of purposes during which it handles money from customers. These transactions include (but are not limited to), dealings with leaseholders, payments for Council Tax and Business Rates, income from disposal of Council assets, right to buy deposits and financial contributions from planning legal agreements.
- 4.2 It is feasible for the Council to become unwittingly involved in the money laundering process via contacts who are carrying out apparently normal transactions, if the money, property or other assets they bring to the transactions are the proceeds of crime.
- 4.3 Examples;
- 4.3.1 Acquiring property which represents or has been purchased using the proceeds of a fraud, including false accounting. This could arise, for example, in the context of a procurement contract.
 - 4.3.2 Handling (even if only as intermediary) funds which were not declared as required by law under an insolvency arrangement or were acquired by tax or benefit fraud.
 - 4.3.3 Any similar dealing with funds obtained as a pay-off following threats to expose illegal or immoral behaviour.
 - 4.3.4 Acquiring funds from a customer for buy to let properties which represent the proceeds of drug dealing
- 4.4 This is not an exhaustive list. As set out above, because the definition of money laundering is very wide, any contact with the proceeds of any offence, from petty theft to tax evasion, extortion and murder, is likely to constitute money laundering.
- 4.5 Where fraud or corruption is suspected, staff members will also need to follow the guidance set out in the Councils Anti-fraud and Corruption Strategy.
- 4.6 Any member of staff who deals with cash paid in by external parties must be alert to the possibility of council financial systems being used to launder "cash" (which is defined as "notes, coins or travellers' cheques in any currency").

- 4.7 Risk assessments should also be reviewed to money laundering, terrorist financing, bribery and corruption in the respect of Covid-19 and the consequent changes to the business environment and the economy. The Local Authority should be alert to financial scams and business relationships with those susceptible to monetary difficulties or other pressures, which could create risk and potential weaknesses for criminals to exploit.
- 4.8 Accountants, auditors and legal officers must be especially alert to the possibility of council financial systems being used to launder cash, particularly if significant sums are involved, such as the purchase price for council property.
- 4.9 Legal practices and regulated businesses should be aware that criminals will continue to operate throughout, and look to take advantage of, the Covid-19 outbreak. This includes laundering the proceeds of crime and terrorist financing, so it is important that everyone is aware of the changing risks
- 4.10 As the UK economy enters a period of uncertainty, employees should be particularly alert to the following risks in new or prospective customers. For example,
- (a) being asked to work with unusual types of client or on unusual types of matter,
 - (b) resistance from a client regarding compliance with due diligence checks,
 - (c) being pressured to forego necessary due diligence checks or to “speed up” the process,
 - (d) becoming involved in work that is outside of their normal area of experience/expertise (without full understanding of the money laundering and counter terrorism risks associated with the new area of work)
 - (e) transactions where the business rationale for the transaction is not clear

RIGHT TO BUY TRANSACTIONS, PROCUREMENT AND COMMERCIAL AGREEMENTS ARE ALSO SUSCEPTIBLE TO MONEY LAUNDERING. THEREFORE, STRINGENT CHECKS ARE REQUIRED TO ASCERTAIN IDENTITY, THE SOURCE OF FUNDS, THE LEGITIMACY OF TRANSACTIONS (AS A MINIMUM), TOGETHER WITH OBTAINING

MANAGEMENT AUTHORISATIONS AND COMPLYING WITH OTHER ROBUST RISK STRATEGY REQUIREMENTS.5 CONSEQUENCES

- 4.1 Involvement in money laundering is a criminal offence, punishable by up to 14 years imprisonment. Not only the Council but also its officers and employees may face criminal prosecution if the Council is found to have been involved, even entirely innocently, in a deal involving the proceeds of a crime.
- 4.2 Therefore, it is important that all persons understand this policy and apply it at all times.
- 4.3 The remainder of this policy document sets out the law concerning money laundering and the rules you must follow to protect yourself and the Council from prosecution. The policy includes some technical information, but it has been drafted carefully to be as user-friendly as possible. Attached to the policy are copies of the documents you will need to become familiar with and complete for third parties with whom you engage in any transaction (or series of linked transactions) which involves cash or property worth approximately £13,000 or more or any other transaction which comes within the 'regulated sector'.
- 4.4 If there is anything you do not understand, please ask your manager or direct queries to the **MLRO**, Kevin Bartel, Interim Corporate Director of Resources (s151 officer).

5 THE RELEVANT LAW

5.1 The Proceeds of Crime Act 2002 (POCA)

5.1.1 This sets out the money laundering offences which apply generally to all UK citizens. These are;

- (i) concealing, disguising, converting or transferring criminal property or removing criminal property from the UK (section 327);
- (ii) entering into or becoming concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property (section 328);
- (iii) acquiring, using or having possession of criminal property (section 329) (however, it is a defence to this charge if it can be shown that there were no grounds on which to suspect money laundering and the property was acquired for adequate consideration);
- (iv) failing, in the case of the 'regulated sector'¹, to disclose knowledge or suspicion of money laundering to the **MLRO** or the failure by the **MLRO** (in the regulated sector and otherwise) to disclose such knowledge or suspicion to the National Crime Agency (**NCA** (sections 330, 331 and 332);

5.1.2 'Criminal property' means anything which is, or which represents, a direct or indirect benefit from any UK offence, no matter how minor.

5.1.3 If you are found guilty of any of the offences in paragraphs 5.1.1(i), 5.1.1(ii) or 5.1.1(iii) the maximum penalty on conviction in the Magistrates Court is up to 6 months imprisonment or a an unlimited fine or both a fine and imprisonment. The maximum penalty on summary conviction at the Crown Court is up to 14 years imprisonment or a fine or both a fine and imprisonment.

¹ Schedule 9, *The Proceeds of Crime Act (2002)* defines 'Regulated Sector' as including firms conducting business in the banking, financial and credit and insurance sectors, accountants, tax advisers and solicitors

- 5.1.4 If you are found guilty of any of the offences in paragraphs 5.1.1(iv) the maximum penalty on conviction in the Magistrates Court is up to 6 months imprisonment or an unlimited fine or both a fine and imprisonment. The maximum penalty on summary conviction at the Crown Court is up to 5 years imprisonment or a fine or both a fine and imprisonment.
- 5.1.5 As shown above, these offences are very broad in scope. If the Council or its officers or employees receive criminal property, even if in payment for an apparently legitimate commercial transaction, they may commit the offence of acquiring or having possession of it, and therefore be guilty of money laundering. However, you will have a defence if you make a formal written report in any case where you suspect money laundering (an authorised disclosure). All persons should make authorised disclosures internally, to the MLRO who can then decide whether to make a formal report to the authorities. Further details on how to make a disclosure are at section 10.

5.2 **The Terrorism Act 2000**

- 5.2.1 This Act establishes offences in relation to involvement in facilitating, raising, possessing or using funds for terrorism purposes that are similar to those under POCA. There are further parallels with POCA in relation to failing to report suspicious transactions.² HM Treasury maintains and updates a financial sanctions list which records individuals and organisations with whom it is prohibited to enter into any business relationship. The list can be viewed at http://www.hm-treasury.gov.uk/fin_sanctions_index.htm
- 5.2.2 As well as relying upon this list each person should consider whether there is a risk of terrorist financing in each transaction which takes place. This will involve considering the source and destination of funds.

² Sections 18-22, *The Terrorism Act (2000)*

5.4 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended) (**“the 2017 Regulations) (as amended).**

5.41 These Regulations introduced significant changes to the anti-money laundering regime, such that regulated businesses are obliged to adopt a more risk- based approach towards AML, particularly regarding conducting due diligence and averting terrorist financing as follows:

- (a) by extending the scope of due diligence checks, so that identity is fully checked. This includes a list of high-risk jurisdictions, which if involved in a transaction makes enhanced due diligence and additional risk assessments compulsory;
- (b) introduction of enhanced due diligence, which includes extra checks to confirm identity, checking financial information, involving senior management with stricter ongoing monitoring of transactions and client relationships;
- (c) enhanced restrictions on the reliance of a third party to carry out customer due diligence. Where an organisation relies on a third party, they are required to obtain copies of all documentation and ensure that there is a written agreement in place with the third party who must be compliant with the regulations;
- (d) the introduction of Transparency of Ownership, so in addition to the UK Companies register, the regulations require a new Trust Register, requiring Trustees to register and report all Trusts that generate tax consequences;
- (e) regulated business to apply stringent due diligence checks to business relationships with political exposed persons (PEPs), their family members and their known close associates,
- (f) a requirement for regulated businesses to carry out an initial and periodic screening of relevant employees. This means an assessment of integrity, conduct, skills, knowledge and expertise of the individuals to carry out their functions effectively;

- (g) introducing a new criminal offence: any individual who recklessly makes a statement in the context of money laundering which is false or misleading commits an offence punishable by a fine and/or up to 2 years imprisonment,

6 RELEVANT GUIDANCE – ASSESSING RISK

- 6.1 The Council has adopted a risk-based approach to anti-money laundering in accordance with guidance set down by the Joint Money Laundering Steering Group (available at www.jmlsq.org.uk). This recognises that most customers and contacts are not money launderers or terrorist financiers and that the systems and controls in place to combat the risk of money laundering should focus on identifying higher risk customers/contacts and situations and responding to them proportionately.
- 6.2 Generally, the Council's business will pose a low-to-moderate risk of being used as a vehicle for money laundering. It is involved in relatively few transactions (compared to say, a law firm, a bank or building society) and the nature of these is such that the participants are likely to come under scrutiny as to their bona fides, as well as their financial status. So opportunities for would-be money launderers to pass money through the Council with relative anonymity are limited.
- 6.3 Upon reviewing its risk profile, the senior management of the Council will update and approve a policy which embodies appropriate controls to manage and mitigate those risks. This is an iterative process. A minimum standard of identification will be required to facilitate this process. This is known as "simplified customer due diligence". Where a transaction or individual is considered to pose a higher risk, additional checks are required. This is known as "enhanced customer due diligence". See 7.2 for more details. If in doubt with regard to the level of risk in individual situations, you must seek advice from the **MLRO**.

7 CUSTOMER DUE DILIGENCE PROCEDURES

7.1 The legal requirement

- 7.1.1 The term 'Customer Due Diligence Measures' is derived from the 2017 Regulations³ and used to describe the measures that need to be taken to obtain information including the customer's identity, the background to the customer's business, the source of funds and the destinations of funds. The application of these measures should be reviewed regularly and in each transaction an analysis should be undertaken to consider the risk of money laundering or terrorist financing. The procedures below which are adopted by the policy set the minimum standards expected by the Council. Each person should be aware of the potential risks. Customer due diligence is more than just a box ticking exercise; it is each person's responsibility to risk assess each transaction.
- 7.1.2 Wherever the Council forms a business relationship, or carries out a one-off transaction involving a payment of €15,000 (currently approximately £13,400) or more, with an external individual or company (a 'customer'), it must obtain satisfactory evidence of identity. A business relationship is formed between the Council and another party where there is a business, professional or commercial relationship between them in relation to the provision of accountancy, audit or legal services, and where the Council expects, at the time when contact is established, that the relationship will have an element of duration. A one-off transaction is any transaction other than a transaction carried out during an established business relationship.
- 7.1.3 Council officers in other Service Areas who require accountancy, audit or legal services are internal customers and are not subject to the anti-money laundering provisions.
- 7.1.4 External customers to whom the Council may provide accountancy, audit or legal services include:

³ Regulations 28 and where relevant regulation 29 and regulations 33-37 inclusive of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

(a) Any person or body for which the Council has power, in exercise of its power to trade, to carry out or provide any services or work or provide any facilities or supplies under statutory powers, including under the well-being power.

(b) The bodies or organisations designated as "public bodies" for the purposes of the Local Authorities (Goods and Services) Act 1970.

(c) Partnership undertakings including the third sector.

7.1.5 The identity evidence must;

(a) Objectively viewed, be reasonably capable of establishing the identity of the individual or company, ("identification").

(b) In fact, establish to the satisfaction of the person who obtains it, that the person/company is who he/it claims to be ("verification").

7.1.6 **If such evidence of identity is not obtained the business relationship or the one-off transaction in question must not proceed any further.** The Regulations require the verification of identity as soon as reasonably practicable after the first contact. The Council's policy is that the requisite identification check(s) should take place within a minimum of **five working days** of the first business contact. If there is an unjustifiable delay in the evidence of identity being obtained from the customer or where the customer is deliberately failing to provide the information, a disclosure will have to be made.

7.1.7 Money laundering prevention is not simply a matter of box ticking, however. Remember that knowing enough about the people and businesses with whom we deal is just as important as confirming identity.

7.2 **The identification and verification process**

7.2.1 Identifying a customer is a two-part process. First, the individual or company is identified, by obtaining the following;

(a) Individual

- (i) full name
- (ii) current residential address
- (iii) previous address if the customer has changed address in the last three months
- (iv) date of birth
- (v) nationality
- (vi) country of residence
- (vii) whether they constitute a Politically Exposed Person (further information as to what this means is set out in 8.4 below and Appendix A)

(b) Companies (most of the following should be available on their letterhead)

- (i) full name of business
- (ii) registered number
- (iii) registered office
- (iv) business address
- (v) country of incorporation
- (vi) (for private companies only) the names of all directors (or equivalent) and the names of all beneficial owners holding over 25% of the shares or voting rights.

(c) Trusts

- (i) full name of the Trust
- (ii) nature of trust (discretionary, bare, etc)
- (iii) donor of the funds
- (iv) nature of business or activity
- (v) location of business or activity

- (vi) country of establishment
- (vii) names of all trustees
- (viii) name of any protector or controller
- (ix) names or classes of beneficiaries

(d) Charities (most of the following should be available from the Central Register of Charities)

- (i) registered name
- (ii) registration number
- (iii) address of the Charity Commission's correspondent for the charity.

7.2.2 Second, the identification information should be **verified** using reliable, independent source documents, data or information. This may be produced by the customer or be obtained via electronic systems of identification (for example a credit reference bureau check).

7.2.3 There are several acceptable documents, which may be used to verify identity. These have been detailed on the Verification Checklists (**Appendix A**), which include requirements for individuals and companies and other entities.

7.2.4 For face to face identification of individuals, production of a valid passport or photo card driving licence should be sufficient (simplified due diligence). However, if there are any unusual circumstances which would indicate a higher than normal risk (e.g. a foreign national, or a discrepancy in the details given and those recorded) then further checks will be required (enhanced due diligence).

- 7.2.5 For corporations, verification requires a search of the relevant company registry, a copy of the certificate of incorporation or confirmation of the company's listing on a regulated market. You must also take steps to be reasonably satisfied that the person you are dealing with is authorised to represent the company and is who he/she says they are. For private companies, it may be appropriate to verify the identity of one or more directors in accordance with the rules for identifying individuals. Verification may be limited to the individual giving instructions or someone who appears to be in active management or control of the company. Similarly, where the risk posed by a company is considered sufficient to warrant it, or the principal owner of a private company is another corporate entity or trust, it may be appropriate to verify the identity of beneficial owners.
- 7.2.6 Partnerships (including LLPs) and unincorporated businesses, if very well known, (e.g. law and accountancy firms) may be treated as publicly quoted companies (see 7.5.7(a)). Otherwise they may be verified by checking their regulated status by reference to membership of the relevant professional body (the Law Society or accountancy body). If neither of these is applicable, they should be treated as private companies.
- 7.2.7 Charities can take a number of legal forms. Some may be companies limited by guarantee, and should be treated as private companies. Other charities take the form of trusts. Details of registered charities are kept by the Charity Commission in a Central Register of Charities and information can be obtained from the website www.charity-commission.gov.uk or by ringing the enquiry line on 0845 3000218.
- 7.2.8 Churches are in general exempted by law from registering as charities and may not therefore have a registered number. Their identity can be verified by reference to the appropriate headquarters or regional organisation of the denomination.
- 7.2.9 The standard identification may be used for clubs and societies that serve a limited social or regional purpose. Following an assessment of the money laundering risk presented by the club or society, it may be appropriate to verify the identity of additional trustees (or equivalent).

- 7.2.10 In most cases simplified due diligence will be sufficient (see Appendix A). In circumstances which present a higher than normal risk of money laundering, however, either because of the nature of the customer or the transaction, or perhaps because the standard check gives rise to concern or uncertainty over identity, enhanced verification checks are likely to be appropriate, this is known as "enhanced customer due diligence" (see 8.3 for further information)
- 7.2.11 Banks and building societies are generally exempt from the verification requirements (see 8.5 below), and much less stringent requirements apply where the company is listed or is FSA regulated.
- 7.2.12 Unless otherwise specified, all documents examined should be originals and as recent as possible. Having inspected the original, you must take a copy for the Council's files. Always consider whether the documents provided appear genuine or may be forged. Where you are dealing with an agent, the identity and address of the actual principal should also be verified.
- 7.2.13 As well as obtaining satisfactory evidence of the identity and address, all persons must complete an appropriate Identity Verification Form (examples for individuals and for companies are at **Appendix B**).
- 7.2.14 Once completed the Identity Verification Form must be sent to the MLRO to check compliance with the Regulations. Only once the MLRO has approved this and related documents, will identity be considered to have been verified. No money or property should be received or transferred before identity has been verified. Once verified the forms and supporting documents will be kept by the MLRO in a central file.
- 7.2.15 For future instructions/transactions, customers who have already been identified, where the Identity Verification Form is centrally filed, do not normally have to be identified again. However, where changes in their business set up have occurred, it may be necessary to do so (for example, if an individual has moved from one limited company to another).
- 7.2.16 In addition to the steps mentioned above, additional steps should be taken where appropriate to:

- (a) establish the customer's circumstances and business, including, where appropriate, the customer's source of funds, and the purpose of specific transactions and the expected nature and level of those transactions;
- (b) update information held on the customer to ensure the information held is valid;
- (c) review information held on the customer to ensure it is current and valid; and
- (d) monitor the customer's business activity and business transactions to ensure that the Council is not being used as a vehicle for money laundering.

7.3 **Enhanced customer due diligence**

In the circumstances outlined below and pursuant to regulation 33 of the 2017 Regulations, the Council will be required to apply enhanced customer due diligence measures and enhanced ongoing monitoring on a risk-sensitive basis.

7.3.1 **Non face to face transactions**

There is a greater likelihood of impersonation fraud and money laundering activity in non-face-to-face transactions. In most cases, this will warrant an additional verification check, which may involve seeing a separate document or, for example;

- (a) requiring transactions to be carried out through an account in the person's name with a UK or an EU regulated credit institution;
- (b) making telephone contact on a verified home or business land line; and
- (c) communicating at an address which has been verified.

7.3.2 *EDD - Red Flag Transactions*

Changes to existing Enhanced Due Diligence (EDD) requirements mean that you must apply EDD in all the following circumstances (formerly it was only necessary if all the listed elements were met):

- (a) where the transaction is complex;
- (b) where the transaction is unusually large or

- (c) where there is an unusual pattern of transactions, **or** the transaction or transactions have no apparent economic or legal purpose (formerly both conditions had to be satisfied).
- (d) Whether a transaction is “complex” or “unusually large” should be judged in relation to the normal activity of the practice and the normal activity of the client.

7.4 **Politically Exposed Persons (PEPS)**

7.4.1 To determine whether the customer is a PEP, refer to Appendix A.

7.4.2 If the customer is a PEP it is necessary to:

- (a) obtain approval from the MLRO to proceed with establishing a business relationship with such a customer;
- (b) establish the source of wealth and source of funds which are involved in the business relationship or occasional transaction; and
- (c) conduct enhanced ongoing monitoring of the business relationship.

7.4.3 **High risk transactions/customers**

7.4.3.1 High risk transactions or customers – if the customer or transaction appears high risk then further verification should be taken to verify the identity of that customer in order to ascertain whether the transaction is suspicious and whether disclosure is to be made. Further documentation which may be required is listed in Appendix B. In addition the source of the funds to be transferred should be ascertained

7.5 **Ongoing monitoring**

7.5.1 It is the duty of the Council to monitor transactions or customers and to assess each transaction with respect to the risk it poses of money laundering activity or terrorist financing.⁴

⁴ Regulation 40, The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

- 7.5.2 Each employee should assess each transaction as to its complexity, suspiciousness, and legal purpose as well as the magnitude, sums, frequency of transactions or any other special characteristics to ensure that they correspond with regular activities of that particular customer.
- 7.5.3 The documents, data or information obtained by the Council for the purpose of applying customer due diligence measures must be kept up to date.

Exemptions from the identification process

- 7.5.4 The identification and record keeping requirements do not apply in respect of any one-off transaction where payment is to be made by or to an individual or company of less than €15,000 or in respect of two or more linked one-off transactions, the total amount in respect of which is less than €15,000 and where there is no suspicion of money laundering.⁵ In the absence of evidence to the contrary, transactions which are separated by an interval of six months or more need not be treated as linked.
- 7.5.5 Financial institutions regulated by the FSA, or in the EU or comparable jurisdiction by an equivalent regulator, do not need to be verified. This will encompass banks and building societies. However, for smaller firms, if there is any doubt as to their regulated status, this should be checked before proceeding without verification (www.fsa.gov.uk).
- 7.5.6 Where a one-off transaction is carried out (but not where there is a business relationship) pursuant to an introduction effected by an FSA-regulated firm or individual, and that firm or individual has provided written assurance that satisfactory evidence of individual identity of the contact introduced by him has been obtained and recorded, evidence of identity is not required.
- 7.5.7 Where the customer is;
- (a) a publicly quoted company
 - (b) a majority-owned and consolidated subsidiary of a publicly quoted company
 - (c) subject to the licensing and prudential regulatory regime of a statutory regulator (e.g. OFGEM, OFWAT, OFCOM)
- nothing is required beyond the standard identification.

⁵ Regulation 27(2), 2017 Regulations

7.5.8 It is important to note that **the above exemptions only apply where there is no suspicion of money laundering**. So even if you are dealing with a bank, or have written assurance from another regulated service provider in the financial services sector that it has obtained satisfactory evidence of identity - if you still have a suspicion you have to undertake the checks and make a disclosure to the MLRO.

8 INFORMATION MANAGEMENT ISSUES

8.1 Data Protection

8.1.1 Under the Data Protection Act 2018 (**the 2018 Act**) and the General Data Protection Regulation 2016 (as amended) (**the GDPR**) an external customer may request in writing:⁶

(a) a copy of all the personal data of which that person is the data subject and any information available to the Council on the source of that data; and

(b) information on the processing of any personal data by the Council, a description of that data, the purpose for which the data are being processed and to whom the personal data has or may be disclosed

(c) members of the public can also seek to find out how their data is being used, have incorrect data updated, have data erased and also to object to how their data is processed in certain circumstances.

8.1.2 The Council must respond to a request for information promptly and in any event not more than one month from the date on which the request is received.

8.1.3 The 2018 Act contains certain exemptions from the right of access to personal data. One such exemption is where the right of access would be likely to prejudice the prevention or detection of crime or apprehension or prosecution of offenders.⁷

8.1.4 The exemption from the right of access to personal data will apply where the disclosure of personal data would result in the commission of the tipping-off offence under POCA.⁸

8.1.5 The exemption is not automatic and each case should be considered on its merits to ensure that the exemption applies. Always take advice from the MLRO.

⁶ Article 15, GDPR

⁷ Schedule 2, part 1 of the Data Protection Act 2018

⁸ Schedule 1, part 2 of the Data Protection Act 2018

8.1.6 The Council's Data Protection Policy can be viewed on the Council's intranet, <http://www.towerhamlets.gov.uk/data/your-council/data/data-protection-act.cfm> and in the Council's Data Protection Manual. Guidance on the application of the policy and the 2018 Act can be obtained from the Council's Data Protection Officer, Darren Thomas.

8.2 Freedom of Information

- 8.2.1 The Freedom of Information Act 2000 (the 2000 Act) gives members of the public a general right of access to all types of recorded information held by public authorities, which includes the Council. The general right of access is however subject to exemptions.
- 8.2.2 Information held by a public authority is exempt information:
- (a) if it was directly or indirectly supplied to a public authority by, or relates to various government bodies, which includes NCA (section 23);
 - (b) if its disclosure would, or would be likely to, prejudice the prevention or detection of crime or apprehension or prosecution of offenders (section 31).
- 8.2.3 These exemptions should not be applied without taking advice from the MLRO.
- 8.2.4 Details on Freedom of Information can be viewed on the Council's Intranet at <http://www.towerhamlets.gov.uk/data/your-council/data/foi/index.cfm>
- 8.2.5 Details about the how the Council manages records can be found in the Council's Information Management and Governance Policy.
- 8.2.6 Advice about Freedom of Information can be obtained from the Information Governance Manager.

9 MAKING A DISCLOSURE

9.1 How to make an authorised disclosure – internal reporting procedures

9.1.1 If you are involved in any transaction – for example the sale or purchase of shares or property - where you either know or suspect that the money or property concerned is the proceeds of any crime, you risk being found personally guilty of money laundering unless you make an **authorised disclosure**. This is a disclosure, in the prescribed form, to the designated Money Laundering Reporting Officer (MLRO), Kevin Bartel, Interim Corporate Director of Resources (s151 officer) . It must be made as soon as is reasonably practicable; i.e. within hours of the relevant information coming to your attention, or the very next day at the latest. What is likely to constitute suspicion is dealt with in section 13.

9.1.2 Where any person is aware of, or has reason to suspect, money laundering, they must complete a Money Laundering Disclosure Form (**Disclosure Form**) indicating the reason for their suspicions. Please see **Appendix C** for a pro-forma of this form and detailed guidance on how to complete it. A copy of the relevant Identity Verification Form should be attached to this form and both documents forwarded to the MLRO. In no circumstances should a copy of the Disclosure Form be put on the file or otherwise disclosed to anyone other than the MLRO.

9.2 The Council requires all disclosures be made to the MLRO, Kevin Bartel, Interim Corporate Director of Resources (s151 officer) , **whose contact details are:**

Internal extension: 020 7364 4915

External Telephone Number: 020 7364 5000

Email:

kevin.bartel@towerhamlets.gov.uk

- 9.2.1 If Kevin Bartle is not available at the time you want to make a disclosure, the disclosure should be made to the MLRO's Deputy, Paul Rock, Head of Internal Audit, Anti-Fraud & Risk, telephone 07562 431830.
- 9.2.2 The MLRO will acknowledge receipt and decide whether it is appropriate to make a formal disclosure, known as a Suspicious Activity Report (**SAR**), to one of the external authorities mentioned.
- 9.2.3 Please note that it does not matter whether the suspected crimes, or the proceeds of it, are extremely minor. The law is very strict – everything must be reported.

9.3 **The offence of failing to disclose**

- 9.3.1 If you;
 - (a) know or;
 - (b) suspect or;
 - (c) have **reasonable grounds** for knowing or suspecting

that another person is engaged in money laundering, you commit an offence if you do not disclose it to the MLRO as soon as practicable after you receive the information (POCA section 330).

- 9.3.2 It is important to note that this is an objective test. Even if you genuinely do not know or suspect that someone is engaged in money laundering, you may commit an offence if there are reasonable grounds for knowing or suspecting money laundering. So if you deliberately shut your mind to the obvious, you may be culpable. To protect yourself, you must think very carefully whether, in any given transaction, there is anything slightly odd or 'iffy'. If so, you must make a disclosure to the MLRO. Please read section 133 below, which will give you some pointers as to behaviour or circumstances which may appear unusual. Whilst this clearly cannot be exhaustive, as no two situations are identical, it should help you develop an enquiring approach.

- 9.3.3 If the disclosure is made after the prohibited act, the disclosure defence will not apply unless there is a reasonable excuse for not having disclosed in advance.
- 9.3.4 If the MLRO receives a disclosure report on the basis of which he knows or suspects, or has reasonable grounds for knowing or suspecting, that someone is engaged in money laundering, he commits an offence if he fails to disclose it as soon as possible to NCA.
- 9.3.5 The failure to report offences are punishable by up to 5 years imprisonment.

9.4 The role of the MLRO

- 9.4.1 Upon receipt of a Disclosure Form, the MLRO must note the date of receipt on his section of the report and acknowledge receipt of it.⁹ He should also advise you of the timescale within which he expects to respond to you.
- 9.4.2 The MLRO will then consider the report and any other relevant information to decide whether the information gives rise to a knowledge or suspicion of money laundering.¹⁰ Relevant information will include;
- (a) reviewing other transaction patterns and volumes;
 - (b) the length of any business relationship involved;
 - (c) the number of any one-off transactions and linked one-off transactions; and
 - (d) any identification evidence held.
- 9.4.3 The MLRO must undertake such other reasonable inquiries he thinks appropriate in order to ensure that all available information is taken into account in deciding whether a report to NCA is required (such enquiries being made in such a way as to avoid any appearance of tipping off those involved).
- 9.4.4 The MLRO may also need to discuss the report with you. All persons are required to cooperate with the MLRO and the authorities during any subsequent investigation.
- 9.4.5 Once the MLRO has evaluated the Disclosure Form and any other relevant information, he must make a timely determination as to whether:
- (a) there is actual or suspected money laundering taking place; or
 - (b) there are reasonable grounds to know or suspect that is the case; and

⁹ Regulations 18-24 of the 2017 Regulations, see in particular Regulation 18(4).

¹⁰ Regulation 21(5) of the 2017 Regulations.

(c) whether he needs to seek consent from NCA for a transaction to proceed.

The decision must be recorded on part two of the Disclosure Form.

- 9.4.6 If the MLRO decides that the information does give rise to a suspicion of money laundering, he is required to make a SAR to the law enforcement authorities as soon as practicable, unless he has a reasonable excuse for non-disclosure. If he concludes that such a reasonable excuse exists (after taking legal advice if appropriate), the MLRO must mark the report accordingly before giving his consent for any ongoing or imminent transactions to proceed.
- 9.4.7 Any material which it is concluded should be disclosed may be subject to legal privilege. Please refer to section 11 below.
- 9.4.8 If there is no reasonable excuse for not reporting to NCA, the MLRO must make his report on the standard report form and submit it in hard copy or electronically in accordance with the procedure set out on the NCA website (www.NCA.gov.uk). This website also includes helpful guidance for MLROs on how to complete an SAR.
- 9.4.9 To submit electronic reports, the Council must first be registered with the SAR online reporting facility [https://www.ukciu.gov.uk/\(thullbfm04gadsru25x3tn45\)/Information/info.aspx?InfoSection=Submission](https://www.ukciu.gov.uk/(thullbfm04gadsru25x3tn45)/Information/info.aspx?InfoSection=Submission)
- 9.4.10 In the absence of a reasonable excuse for not reporting to the authorities, the MLRO commits a criminal offence if he knows or suspects, or has reasonable grounds to do so, (because of a disclosure made to him), that another person is engaged in money laundering and he does not disclose this as soon as practicable to NCA.
- 9.4.11 Once a report has been made, no further action should be taken about the matter until it is expressly or impliedly permitted by NCA (see 11.2 below).

10 LEGAL PROFESSIONAL PRIVILEGE

10.1 Solicitors and all other legal staff and legal services' support staff will be handling material subject to legal professional privilege. There are two categories of legal professional privilege; legal advice privilege and litigation privilege.

10.2 The broad outline of the type of communication which attract privilege are set out below. The existence of legal privilege may affect the basis of a money laundering disclosure. Always take evidence from the MLRO if you believe privilege attaches to relevant information.

10.3 Legal Advice Privilege

10.3.1 Legal advice privilege applies to;

(a) confidential communications;

(b) which pass between members of the Council or other council staff and solicitors and other legal services' staff; and

(c) which have come into existence for the purpose of obtaining legal advice in relation to the business of the Council.

10.3.2 Confidential communications are limited to those that directly seek or provide legal advice. Communications which merely pass information between legal services' staff to members of the Council or other council staff **should not contain legal advice** as this could lead to loss of privilege to the whole document.

10.3.3 Legal advice privilege does not attach to communications prepared for the purpose of or which form part of a criminal act, or to communications seeking legal advice for the purpose of furthering a criminal act, even if the legal adviser is not aware of the true purpose of preparing the documents or seeking legal advice. Consequently, documents and communications known to have been made for the purpose of furthering money laundering do not benefit from legal advice privilege.

10.3.4 Where there is only a suspicion of money laundering and the documents involved are subject to privilege, section 338 of POCA 2002 provides that an "authorised disclosure" may be made without breaching legal privilege.

10.4 **Litigation Privilege**

10.4.1 Ligation privilege applies to;

- (a) confidential communications when litigation is pending or contemplated;
- (b) which pass between members of the Council or other council staff and solicitors and other legal services' staff; and
- (c) which pass between the council's solicitors or legal services' staff and the solicitors or legal advisers of the other party or parties to the proceedings.

10.4.2 A solicitor or legal adviser may be in contempt of court if he discloses information to NCA that is protected by litigation privilege.

10.5 **Checks for Lawyers**

- (a) Consider any unusual transactions and do appropriate due diligence particularly in relation to source of funds;
- (b) Carry out enhanced verification checks in relation to identity, property, trusts, monetary activity as a minimum;
- (c) Seek to understand the rationale for any litigation/business transactions;
- (d) Document any transactions and adopt a risk- based approach;
- (e) Monitor ongoing business/client relationships;
- (f) Ensure transactions are appropriate for the instructions;
- (g) Review existing records and consider the reasoning for every transaction/contract;

(h) Consider whether there is the possibility of sham litigation and/or suspicious instructions.

11 AFTER A DISCLOSURE HAS BEEN MADE

11.1 Caution

- 11.1.1 Once you have made a disclosure to the MLRO, you must not discuss the matter with anyone else and you must not do anything further in connection with the deal or transaction until you receive direct instructions from the MLRO. You must not make further enquiries into the matter yourself; any necessary investigations will be undertaken by the MLRO, or NCA, in the event that the MLRO decides to make an SAR.
- 11.1.2 If the MLRO determines that it is appropriate to make an SAR to NCA, you cannot proceed without NCA's consent. More details on the procedure for obtaining consent and what you must do in the meantime are outlined at section 11.2.

11.2 Consent

- 11.2.1 If the MLRO decides that your report does not require onward reporting to NCA, he will give you consent to proceed.
- 11.2.2 Once a disclosure had been made to NCA, the Council must do nothing further in connection with the particular transaction giving rise to the suspicion. If nothing is heard from NCA after 7 working days, then consent is deemed to have been given for the transaction to proceed. If, however, NCA responds within 7 working days with a request for more time, then the 31 day moratorium period will take effect. During this period, the transaction must not proceed unless and until either consent is received or the 31 day period expires. If NCA does not respond within that time, the Council can conclude that implied consent has been granted for the transaction to proceed.
- 11.2.3 The authorities can apply for a restraining order before the end of the moratorium period if they wish to stop the transaction going ahead at all.
- 11.2.4 These time limits must be strictly adhered to. It may be that at some later date the Council may by court order be ordered to produce documentation.

12 TIPPING OFF

- 12.1 At no time and under no circumstances should you voice any suspicions to the person(s) whom you suspect of money laundering, even if NCA has given consent to a particular transaction proceeding. This amounts to 'tipping off' and is an offence under POCA, section 333A. A person commits this offence if, knowing or suspecting that an authorised or protected disclosure has been made, he makes a disclosure (whether to the suspect or any third party) which is likely to, and which he knows or suspects is likely to, prejudice any investigation. The maximum penalty is five years in prison.
- 12.2 It is vital that you do not discuss details about a disclosure with anyone where it might prejudice any investigation. Clearly, the individual or company who is the subject of the report cannot be informed. Nor can anyone else who may inform them. The safest position is to limit discussions about suspicion and disclosure with the MLRO.

13 WHAT IS SUSPICIOUS?

13.1 Suspicion is less than knowledge, but more than mere speculation or gossip. It must be built on some foundation. A transaction which appears unusual will not necessarily be suspicious. 'Unusual' is, in the first instance, a basis for further enquiry, which may in turn require judgement as to whether it is suspicious. It is impossible to give an exhaustive list of circumstances and activities which will trigger suspicion. Sometimes it may be a combination of factors which individually would not give cause for concern. However, in the context of the Council's business, the following are common examples which may, depending on the particular circumstances, be likely to trigger suspicion:

13.1.1 Secretive individuals or companies. Be particularly cautious if you don't meet people in person, or if there is any attempt to conceal identity, for example, via the use of post office boxes.

13.1.2 Unusual arrangements, for example complex company structures or trusts with no apparent commercial purpose or companies with nominee directors.

13.1.3 Receipt of, or a request for payment in, substantial sums of cash (over €15,000).

13.1.4 Any request to hold sealed boxes/parcels.

13.1.5 Unusual Settlements by cash or bearer cheques of any large transactions involving the purchase of property or other investments.

13.1.6 A deal which is uncommercial for one or more participants; launderers are prepared to lose a high percentage of the initial funds, just to 'wash' large sums of cash.

13.1.7 Overpayments by any party.

13.1.8 A transaction is proposed but the person you are dealing with is not the person behind the deal/company and you do not meet this person.

13.1.9 Illogical third party transactions, for example unnecessary routing or receipt of funds from third parties or via third party accounts.

- 13.1.10 Payment by way of third party cheque or money transfer, where there is a variation between the account holder, the signatory and a prospective investor.
- 13.1.11 Funds for deposits or completion on a property transaction which come from an unexpected source; alternatively where instructions are given for settlement funds to be paid to an unusual destination.
- 13.1.12 Any other involvement of an unconnected third party without logical reason or explanation.
- 13.1.13 An abortive transaction which has fallen through for no good reason.
- 13.1.14 Radical changes/developments to an original proposition for no discernible reason.
- 13.1.15 Poor business records and internal accounting controls.
- 13.1.16 Proof of identity documents which don't look or feel quite right.
- 13.1.17 A transaction which is unusually large, or small.
- 13.1.18 An unusual deal/contact either in terms of size or location.
- 13.1.19 Any matter having a link with countries where production of drugs or drug trafficking may be prevalent. The Financial Action Task Force (FATF) publishes a list of non co-operative countries and territories annually (go to www.fatf-gafi.org).
- 13.1.20 Fellow employees whose lifestyle indicates an income in excess of position/salary or whose level of performance falls. Money launderers have been known to 'buy off' or blackmail staff whom they have enticed into drug use to turn a blind eye to laundering transactions.
- 13.1.21 Funds being received from, or going to, an offshore location may be a possible indicator that money coming into or being paid out on a transaction is not being declared properly for tax.
- 13.1.22 Transactions significantly above or below market price or which appear uneconomic inefficient or irrational.
- 13.1.23 Anything which seems too good to be true.

- 13.2 It is important to think laterally. Be alert to transactions which could constitute money laundering, even though they may not fall within the common perception of money laundering, i.e. receiving the proceeds of drugs trafficking or a bank robbery.

14 RECORD KEEPING PROCEDURES

14.1 All disclosure reports referred to the MLRO and reports made by him to NCA must be retained by the MLRO in a confidential file kept for that purpose for a minimum of five years.¹¹ The Regulations require that the Identity Verification Form and the record of transactions (the transaction file and other relevant records) be retained for at least five years from:

14.1.1 in the case of the Identity Verification Form and related evidence, the date the business relationship ends or the date of completion of all activities taking place in the course of the one-off transaction or the last one-off transaction where linked; and

14.1.2 in the case of the record of transactions, the dates on which all activities taking place in the course of the transaction were completed.

14.2 However, for cases where a report to NCA is made, the relevant records must not be destroyed without reference first to NCA. It is the responsibility of the MLRO to ensure that such records are retained after their normal five year retention period.

¹¹ See Regulations 21(8) and 40.

15 TRAINING

- 15.1 The Regulations require that key staff involved in relevant business and any clerical, secretarial, administrative or accounts staff assisting them, be provided with adequate training to ensure they are aware of, and understand, their legal and regulatory responsibilities and their role in implementing the Council's internal procedures.¹² This is to be co-ordinated by the MLRO.
- 15.2 In the event that any person is contacted by NCA, the police, HM Revenue and Customs or any other law enforcement body with regard to a money laundering matter, they should refer the enquiring party to the MLRO in the first instance, who will obtain details of their requirements and decide how to proceed.

¹² Regulation 24 of the 2017 Regulations.

16 SUMMARY OF RESPONSIBILITIES

16.1 Key Officers must:

- 16.1.1 Read and follow this policy.
- 16.1.2 Know and understand the legislation.
- 16.1.3 Take reasonable steps in accordance with procedures to identify and verify the identity of any person or company with whom it is proposed to deal.
- 16.1.4 Remain vigilant at all times and alert to suspicions.
- 16.1.5 Report any suspicions to the Money Laundering Reporting Officer (MLRO) in accordance with internal procedures.
- 16.1.6 Complete the multimedia training programme and pass the test to reinforce understanding of the law, internal rules and procedures.
- 16.1.7 Keep appropriate records for at least five years, and indefinitely in cases where an SAR has been made.

16.2 The MLRO must;

- 16.2.1 Monitor compliance.
- 16.2.2 Ensure that policy and procedures are developed and maintained in accordance with evolving statutory and regulatory obligations and guidance.
- 16.2.3 Review the policy and the Councils' general assessment of risk, at least annually, to determine whether changes are appropriate.
- 16.2.4 Ensure that training is offered and that the standards and scope of training are appropriate and necessary records are kept.
- 16.2.5 Report to senior management as appropriate on money laundering compliance matters.
- 16.2.6 Consider all internal disclosures and make Suspicious Activity Reports (SAR) to the National Crime Agency (NCA) as appropriate.

16.2.7 Ensure that records are kept for the requisite five years, or indefinitely in cases where an SAR has been made.

APPENDIX A

**CUSTOMER IDENTIFICATION –
VERIFICATION CHECKLIST OF
ACCEPTABLE SOURCES OF INFORMATION**

**CUSTOMER IDENTIFICATION NOTES PLEASE READ IN CONJUNCTION WITH
VERIFICATION CHECKLISTS**

1 DOCUMENT REQUIREMENTS AND CERTIFICATION

All documents must be original and as recent as possible. A copy should be retained and noted as to who saw the original and when. Only the personal detail pages of a passport need to be copied – in black and white – and retained.

If you are satisfied that there is a good reason why you cannot meet the customer and see original documentation, copies certificated as set out below may be relied on.

(a) UK residents

- Passports;
 - UK notaries, solicitors whose name and address should be noted and checked against the Law Society database of practising solicitors, government departments and British consulates
 - Financial institutions and other persons and firms subject to the 2017 Regulations.
- Other documentary evidence;
 - For example by a UK solicitor, doctor or high street bank manager, whose name and address should be noted and checked by reference to a professional directory or, for solicitors, as above.

(b) Non–UK Residents

Copy documentary evidence can be certified by;

- An embassy, consulate or high commission of the country of issue;
- A qualified lawyer or notary, verifying his/her name and practice address in a reputable professional directory, or that the professional is currently on record with the appropriate professional body as practising at the address shown on the certificate or practice notepaper, keeping a note

of this name and address with the evidence of identity.

1. Politically Exposed Persons

2.1 These are individuals who are or have been entrusted with prominent public functions including:

- Heads of state, heads of government, ministers, and deputy or assistant ministers;
- Members of parliament;
- Members of supreme courts, constitutional courts or other high-level judicial persons
- Members of courts of auditors or of the boards of central banks
- Ambassadors and high-ranking officers in the armed forces;
- Members of the administrative, management or supervisory bodies of State-owned enterprises.

and

- Are resident outside the United Kingdom
- Are or have, at any time in the preceding year been entrusted with a prominent public function by a state other than the United Kingdom or by the Community or by an international body.

2.2 Individuals who are immediate family members, of a person listed in 2.1 above, which includes

- a spouse;
- a partner;
- children and their spouses or partners; and
- parents.

2.3 Individuals who are known close associates, of a person listed in 2.1 above, which includes:

- any individual who is known to have a joint beneficial ownership of a legal entity or legal arrangement, or any other close business relations with a person in 2.1 above.
- any individual who has sole beneficial ownership of a legal entity or legal arrangement which is known to have been set up for the benefit of the person in 2.1 above.

3. Overseas Corporations

Where the Customer is a non-UK company comparable documents to those for a UK company should be obtained and similarly one director or shareholder should be identified as set out for a UK company. Care should be taken to verify the legal existence of the company and to ensure that any person purporting to act on behalf of the company is so authorised. It is important to look behind the corporate identity to establish who has ultimate control.

4. Principal and agent relationships

Where the customer is not acting as the principal but as agent then the identity and address of the actual principal should also be verified.

PART I

PRIVATE INDIVIDUALS OR DIRECTORS/PARTNERS OF CORPORATE BODIES

Standard Verification of Identity

STEP ONE

Ask the individual to confirm their full name, current residential address (and previous address if it has changed in the last three months), date of birth, nationality and country of residence.

STEP TWO

Verify the information based on documents produced by the individual or electronically (e.g. via a credit reference bureau)

1. Face-to-face dealings

Choose either:

- **One item from LIST A or**
- **One item from LIST B and one item from LIST C**

and record the details as prescribed.

2. Non face-to face dealings

As 1. above, but consider whether an additional verification check is required; either an additional piece of information, an electronic verification or another measure, for example:

- a) Requiring any financial transaction to be effected via an account in the individual's name with a UK or EU regulated institution
- b) Making telephone contact via a verified home or business land line
- c) Communicating with the individual at an address which has been verified
- d) Requiring any copy documents to be certified by an appropriate person.

Non-standard verification of identity

Where an individual or a transaction is considered higher risk, the standard verification procedure may be inadequate. This may arise, for example, where completion of the standard verification check has given rise to concerns. In such cases, the number of matches required to be reasonably satisfied as to the individual's identity will increase. If in doubt, seek advice from the MLRO as to what is required in non-standard cases.

LIST A

Government issued photographic ID with full name and address or DOB

	IDENTIFICATION DOCUMENTS	DETAILS TO BE RECORDED
1	Valid full UK/EC signed Passport	Name Passport Number Country of Issue Date of Issue Date of Birth
2	Current UK or EEA photo-card driving licence (full or provisional)	Name Licence Number Address Date of Birth Valid From and Valid to dates
3	National identity card containing a photograph (non-UK nationals only)	Names Number Country of Issue Date of Issue Date of Birth
4	Firearms certificate or Shotgun licence	Name Number Date Valid Until
5	Identity card issued by the electoral office for Northern Ireland	Name Number Date of issue Date of birth

LIST B

Government-issued documents (without a photograph) which show the individual's full name

	IDENTIFICATION DOCUMENTS	DETAILS TO BE RECORDED
1	Valid (old style) full UK driving licence	Name Number Date of issue Valid until
2	Housing benefit, council tax benefit or state pension statement	Name Number Date
3	Inland Revenue Self-Assessment Statement or Tax Demand (current tax year only)	Tax Reference Number Date of Issue Name of Issuing Tax Office
4	Tax demand or statement	Name NI number Reference number Date

5	Armed Forces Identity Cards	Name Services Number Rank Held
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LIST C

EITHER - a document issued by government, a judicial authority, public sector body or an FSA (or comparable) regulated firm which must incorporate the individual's full name and his residential address or his date of birth

OR - confirmation of a visit to the home address

<p align="center">1</p>	<p>Recent Utilities Bill or Statement not more than 3 months old (inc telephone, gas, water rates and electricity) - or similarly recent Certificate from a Utilities Supplier confirming an arrangement to pay for services on pre-payment terms</p> <p>Do not accept mobile phone bills or utility bills printed off the internet</p>	<p>Customer Account Number</p> <p>Name of Utility</p> <p>Date of Bill</p>
<p align="center">2</p>	<p>Council Tax Bill or statement Not more than 12 months old</p>	<p>Property Reference Number</p> <p>Name of Issuing Local Authority</p> <p>Date of Bill</p>
<p align="center">3</p>	<p>Bank, Building Society, Credit Union Statement or original Mortgage Statement from a regulated financial sector firm in the UK, EU or comparable jurisdiction (not more than 12 months old or printed off the internet) or passbook containing current address</p>	<p>Account Number</p> <p>Account Name</p> <p>Name of Bank or Lender</p> <p>Date of Statement</p> <p>Date of last entry in passbook</p>

5	Medical Card	National Health Service Number Date of Birth Name of Issuing Authority
6	Current house or motor Insurance Certificate	Insurance Company Policy Number Date
7	Visit to customer's home address	Details

**Part II –CORPORATE BODIES AND OTHER
NON-PERSONAL ENTITIES**

(N.B for the purposes of ID verification, partnerships (including LLPs) and unincorporated businesses, if very well known, (e.g. law and accountancy firms) may be treated as publicly listed companies. Otherwise they may be verified by checking their regulated status by reference to membership of the relevant professional body (law society or accountancy body). If neither of these is applicable, they should be treated as private companies.)

Standard Verification of Identity

STEP ONE

Obtain full name, registered number, registered office and business address (should be on letterhead/notepaper)

For private companies only, also obtain names of all directors (or equivalent) and names of beneficial owners holding over 25%

STEP TWO

Verify the information

- If you are satisfied the company is listed, or a subsidiary of a listed company, or is regulated by the FSA or equivalent (i.e. a bank or building society) or OFGEM, OFWAT or OFCOM, you need take no further action. This status may be self-evident, but for smaller or less well know companies, double check via the appropriate website.
- Otherwise, you should undertake a search of the relevant company registry or obtain a copy of the certificate of incorporation and record;

- Company Number
- Registered Office Address
- Directors Names and addresses
- Shareholders names and addresses

Non-standard verification of identity

The standard evidence is likely to be sufficient for most corporate entities. If, however, a higher risk is presented, additional evidence may be required. Higher risk indicators may include entities which are;

- smaller
- opaque
- lacking industry profile
- based in less transparent jurisdictions
- associated with a high risk territory or a politically exposed person (PEP) or
- where the standard verification process has thrown up something unusual.

Additional evidence may include verification of the identity of one or more directors or beneficial owners with a holding of over 25% (in accordance with the individual verification checklists). Special care must be taken in respect of any company with bearer shares, which make it difficult to identify the beneficial owners. In such cases, a written undertaking must be obtained from the beneficial owner that they will provide immediate notification in the event of a transfer of shares to another party.

APPENDIX B

**IDENTITY VERIFICATION
FORMS**

**IDENTITY VERIFICATION FORM
PART I - PRIVATE INDIVIDUAL**

Please refer to verification checklists A, B and C and related notes in completing this form

1	Name (including aliases)	
2	Address (including post code)	
3	Telephone No (including area code)	
4	Fax No (including area code)	
5	E-mail address	
6	Date of first contact (DD/M/YY)	
7	Summary of transaction and party's involvement in it	

8	<p>Acting as principal? (If no, identify principal on a separate form)</p>	YES/NO
9	<p>Standard verification of customer's identity</p> <ul style="list-style-type: none"> - Government issued photo ID (verification list A) <p>OR</p> <ul style="list-style-type: none"> - government issued non-photo ID showing full name (list B) <p>AND</p> <ul style="list-style-type: none"> - document issued by government, judicial authority, public sector body or FSA regulated firm, showing address or DOB/home visit (list C) <p>Document(s) Checked?</p> <p>Relevant details recorded? (LIST</p>	

	<p>name, address, DOB, document issuer, reference/account numbers, issue date, valid from and valid to dates as appropriate)</p> <p>Any other Relevant Details</p>	
10	<p>Evidence of identity attached?</p> <p>If no, give reason; if yes specify</p>	YES/NO
11	<p>Face-to-face contact?</p> <p>If no, what additional steps have been taken to verify identify?</p> <ul style="list-style-type: none"> - telephone/ postal contact to verified land line number/residential or business address? - Certified documents? - Electronic verification? 	YES/NO
12	<p>Is the customer a Politically Exposed Person? (Refer to paragraph 2 of Appendix A above)</p> <p>Is the customer an individual who has held a prominent public position or an immediate family member or a known close associate of such an</p>	YES/NO

	<p>individual?</p> <p>Resident outside the United Kingdom?</p> <p>At any time in the preceding year carried out a prominent public function for a state other than the UK, or for the Community, or for an international body?</p> <p>If yes to any of the above this must be referred to the MLRO for approval</p>	<p>YES/NO</p> <p>YES/NO</p>
13	<p>Non-standard verification required? (for higher risk customer/transaction)</p> <p>If yes give details of additional verification undertaken</p>	YES/NO
14	Evidence of identity satisfactory?	

Notes:

- 1 Copies of the evidence of identity and address must be attached.
- 2 This form and supporting documents must be sent to the MLRO for filing.

IDENTITY VERIFICATION FORM

PART II - CORPORATE AND OTHER ENTITIES

1	Name (including trading names)	
2	Type of legal entity (corporate, trust, etc)	
3	Registered number (corporates)	
4	Registered and business/location address (including post code):	
5	Telephone Number (including area code):	
6	Fax Number (including area code)	
7	E-mail address	
8	Country of incorporation	

9	Type of business	
10	Regulatory body	
11	Contact Director/Shareholder (Minimum of one name)	
12	Names of principal beneficial owners (over 25%)	
13	Date of first contact (DD/MM/YY)	
14	Summary of transaction and role of party	
15	Acting as principal? (If no, identify principal on a separate form)	YES/NO
16	Exemption from verification procedure a) Is the Company (or its parent) a UK/EU bank or a building society, or	YES/NO

	<p>otherwise FSA regulated? (if in doubt check the on-line FSA register (www.fsa.gov.uk) showing that authorisation by the FSA to carry on relevant business)</p> <p>b) Is the company listed or its shares or securities traded on any other recognised, designated or approved exchange or subsidiaries (check if necessary via www.fsa.gov.uk)</p> <p>c) Is the company a subsidiary of a company under b)? (If necessary, obtain evidence of listing of parent and of relationship to parent such as a copy of the latest annual return or extract from a reputable on-line provider).</p> <p>d) Is the company OFGEM, OFWAT or OFCOM regulated?</p> <p>e) Is it a well known accountancy or law firm? (if not sure, check details with the Law Society or relevant accountancy body)</p> <p>(if YES to any of above, give details and proceed to question 20)</p>	<p>YES/NO</p> <p>YES/NO</p> <p>YES/NO</p> <p>YES/NO</p>
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17	<p>Verification of identity - private companies</p> <p>Search of Companies House Register and or certificate of incorporation and record;</p> <ul style="list-style-type: none"> - company name - company number - registered address - directors names and addresses - shareholders names and addresses - names of beneficial owners holding over 25% 	
18	<p>Verification of identity – other bodies;</p> <p>a) NHS Trusts – evidence from Department of Health website, a certificate copy of the relevant resolution and evidence that the instructing representative is duly authorised.</p> <p>b) Local authorities – evidence from Directory of Local Authorities, a certificated copy of the relevant resolution and evidence that the instructing representative is duly authorised.</p> <p>c) Educational institutions – extract from relevant charter or Act and SI, showing creation and powers and evidence that the instructing representative is duly authorised.</p> <p>d) Partnerships and limited</p>	Record relevant details

	<p>partnerships – evidence of identity of partner instructing and one other partner, with satisfactory evidence of trading address (possibly from a directory or similar).</p>	
19	<p>Non-standard verification required? (where higher risk indicators exist, e.g. smaller, opaque businesses, based overseas, involving politically exposed persons)</p> <p>If yes give details of additional verification undertaken (for example, separate individual identity verification for individual director(s) or shareholder(s))</p>	YES/NO
20	<p>Evidence of identity attached?</p> <p>(If no, give reason)</p>	YES/ NO
21	<p>Evidence of identity satisfactory?</p> <p>(If no, please explain)</p>	YES/NO

22	Signature and reference	<p>.....</p> <p>Ref</p>
23	Signature and reference of MLRO	<p>.....</p> <p>Ref</p> <p>Date</p> <p>...../...../.....</p>
24	Date business relationship/one-off transaction completed	<p>...../...../.....</p>
25	Record destruction date (5 years from the date in 18)	<p>...../...../.....</p>

Note This record must not be destroyed at the date of destruction if a report has been made to the Serious and Organised Crime Agency (NCA) without reference first to NCA.

Notes:

- 1 'Corporate' bodies include listed and unlisted companies and partnerships.
- 2 Copies of the evidence of identity and address must be attached.
- 3 This form and supporting documents must be sent to the MLRO for filing.

APPENDIX C

**DISCLOSURE
FORMS**

DISCLOSURE FORM – PART 1

Report to Money Laundering Reporting Officer

Details of Employee:

From _____

Email/telephone

Number

1	Are you dealing with a transaction which might be a prohibited act under sections 327-329 if the Proceeds of Crime Act 2002 and which requires appropriate consent from the NCA?	YES/NO
2	Details of Customer Identities of the person(s) subject to the enquiry Name (If a company/public body please indicate nature of business) Address Telephone Number (including area code)	

3	<p>Copy of Identity Verification Form and evidence of identity attached?</p> <p>(If no, give reasons)</p>	YES/NO
4	Summary of transaction and customer's role	
5	Value of transaction	
6	Amount and source of funds (e.g. cash, bank or other securities including account numbers)	

7	Destination of funds (including account numbers)	
8	Reason for suspicion	
9	Nature of suspicions	
10	To your knowledge, has any investigation been undertaken?	YES/NO

	(If yes, please include details)	
11	<p>Have you discussed your suspicions with anyone else?</p> <p>(If yes please specify below with whom, explaining reasons for such discussion and the outcome of the discussion.)</p>	YES/NO
12	<p>Have you consulted any supervisory body for guidance?</p> <p>(e.g. NCA or professional body such as ICAEW). If yes please provide details</p>	YES/NO
13	<p>Do you feel you have a reasonable excuse for not disclosing the matter to NCA?</p> <p>If yes please give full details</p>	YES/NO

Signed _____ Dated _____

Once completed please forward this form to the MLRO. Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence which carries a maximum penalty of 5 years imprisonment.

MONEY LAUNDERING DISCLOSURE FORM – PART 2

The following part of this form is for completion by the MLRO

DETAILS OF THE MLRO

Name _____

(insert name of MLRO/deputy MLRO)

Email /Telephone Number _____

Date report received _____

Date report acknowledged _____


1	Report to NCA? If no please state reasons	YES/NO
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	If yes please confirm date of report to NCA.	
2	Details of liaison with NCA regarding the report Name of NCA person spoken to Notice period _____ to _____ Moratorium period _____ to _____	
3	Is consent required from the NCA to any ongoing or imminent transactions which would otherwise be prohibited acts? If yes has consent been obtained? Name of NCA person spoken to Contact details Date consent received from NCA Date consent given by you to employee	YES/NO
4	Report NCA? If no please state reasons	YES/NO

5	Date consent given by you to employee for any prohibited transactions to proceed	
6	Date business relationship /transaction completed	
7	Record destruction date (5 years from date at 6)	

Signed _____ Dated _____

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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>7th April 2021</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Janet Fasan, Divisional Director of Legal & Interim Monitoring Officer</p>	<p>Classification: Open (Unrestricted)</p>
<p>RIPA Policy 2021</p>	

Originating Officer(s)	Agnes Adrien, Head of Litigation, Legal Services
Wards affected	(All Wards);

Executive Summary

On 24 April 2019, Cabinet agreed a council-wide Enforcement Policy. The Enforcement Policy is concerned with the Council's exercise of its criminal and quasi-criminal enforcement functions. The policy is also concerned with offences and contraventions of legislation that fall within the Council's responsibility to enforce.

This report details proposed amendments to the Regulatory Investigatory Powers Act ("RIPA") Policies for directed surveillance, the use of covert human intelligence sources which accompany the Council's Enforcement Policy. It is also proposed that a RIPA Social Media Policy is introduced.

The policies are being reviewed to take account of changes in legislation and good practice.

Recommendations:

The Audit Committee is recommended to:

1. Consider and comment on the proposed amendments to the RIPA policy and the introduction of the Social Media policies at Appendices 1 and 2.

1. REASONS FOR THE DECISIONS

- 1.1 The Council's policies need to reflect changes to legislation and good practice, and to be reviewed annually to be both relevant and up to date. Going forward, in line with recommended practice, the Audit Committee will receive an annual report summarising any policy changes and use of directed

surveillance and covert human intelligence sources.

2. ALTERNATIVE OPTIONS

- 2.1 The Council can choose not to update its RIPA Policy or introduce the RIPA Social Media Policy but it may mean that formal enforcement action taken by officers fails. There is also a risk of unauthorised covert surveillance taking place.

3. DETAILS OF THE REPORT

- 3.1 These Policies are being reviewed and revised to take account of changes in legislation and to ensure that council officers use social media in a controlled and auditable manner. The intention of the revised RIPA policy and the introduction of a RIPA Social Media Policy is to ensure that there is a consistent approach to the use of RIPA throughout the council.
- 3.2 The revised RIPA Policy takes account of the principles set out in the Covert Surveillance and Property Interference Revised Code of Practice and the Covert Human Intelligence Sources Revised Code of Practice.
- 3.3 **Amendments to the Policy**
It is necessary to update the Council's current RIPA Policy as there have been various changes in procedure and legislation that have taken place that need to be reflected in the refreshed policy.
- 3.4 The suggested changes to the council wide RIPA policy include the following:
- a) Extending the authorisation period for juveniles from one to four months.
 - b) Defining what constitutes confidential information (i.e. legally privileged material, journalistic material, constituency business of MPs and finally confidential personal information relating to physical or mental health or spiritual counselling)
 - c) The introduction of the Investigatory Powers Act 2016 came into force on 11 June 2019. Acquisitions of communications data by a local authority no longer requires judicial approval by a magistrate. An authorising officer in the Office for Communications Data Authorisations (OCDA) can authorise any lawful request for any of the specified purposes.
 - d) The introduction of a RIPA Social Media Policy, which will ensure that there is a consistent approach to the use of social network sites for intelligence gathering and/or as a surveillance tool. Auditable records should be retained when activity is carried out on the internet in a way in which staff may interact with others using public open websites e.g. social networking services or private exchanges where the party may not reasonably be expected to know their identity. Managers are expected to regularly review the internet activity of their teams and maintain records.

- 3.5 Current RIPA Policy
There are two RIPA Policies appended to the Council-wide Enforcement Policy. One relates to Directed Surveillance and the other one covers Covert Human Intelligence Sources. For activities under RIPA, this means that before obtaining or disclosing communications data under Part 1 of RIPA or conducting covert surveillance or using a covert human intelligence source under Part 2 of RIPA, the Council will require its own authorisation to be approved by a justice of the peace. This adds an extra layer of approval. The requirement for judicial approval to conduct covert surveillance, or use a covert human intelligence source, under Part 2 of RIPA came into force on 1 November 2012.
- 3.6 Extending Authorisations for Juveniles
The Secretary of State made the Amendment of the Regulation of Investigatory Powers (Juveniles) Order 2000 which came into force 20 July 2018. The order extended the period permitted for a juvenile's authorisation from one to four months.
- 3.7 Defining Confidential Information
Where a Covert Human Intelligence Source (CHIS) is targeted to obtain confidential information or confidential information is likely to be obtained, the Chief Executive is the Authorising Officer, rather than the Divisional Director of Public Realm or Community Safety. Defining confidential information in the policy provides clarity to the Gatekeeper in making a decision as to who the Authorising Officer is.
- 3.8 Interception of communications
The Investigatory Powers Act 2016 ("IPA") came into force on 11 June 2019. This is the main legislation governing the acquisition of communications data. The interception of communications is regulated by the Office for Data Communication Authorisation (OCDA).
- 3.9 Communications data is information about communications: the 'who', 'where', 'with whom' and 'how' of a communication but not the content i.e. Not what was actually said or written. It is the communication that can be acquired. E.g. if during a Council investigation into criminal activity, who a particular mobile telephone was registered to was required, this information could be obtained. This would be communications data.
- 3.10 The acquisition of communications data by local authority officers is no longer subject to judicial approval by a magistrate. There is a requirement for a local authority making an application to ensure that someone at least the rank of Service Manager is aware that the application is being made before it is submitted to OCDA. An authorising officer in OCDA can authorise any lawful request for any of the specified purposes from any listed public authority.
- 3.11 Social Media
Information that is available online, presents opportunities for public authorities to view or gather information which may assist them in preventing

or detecting crime. The internet can be used for intelligence gathering and/or as a surveillance tool by officers in the course of their duties.

- 3.12 The introduction of a RIPA Social Media Policy will ensure that there is a consistent approach to the use of social network sites for intelligence gathering and/or as a surveillance tool. A preliminary examination of social media to establish whether the site or its contents are of interest is unlikely to interfere with a person's reasonable expectation of privacy and is unlikely to require a directed surveillance authorisation.
- 3.13 When researching "open source" material this would not generally require authorisation. "Open source" relates to materials that can be viewed on social media without the need to become a subscriber, follower or friend. However, return visits to build up a profile could alter the position as it could constitute directed surveillance depending on the circumstances.
- 3.14 Important points to note when accessing social media sites are as follows:
- i. Where on-line monitoring or investigation is conducted covertly or for the purpose of a specific investigation or operation it is likely to result in obtaining private information about a person or group. An authorisation should be considered in these circumstances.
 - ii. Where a person acting on behalf of a public authority is intending to engage with others without disclosing their identity, a Covert Human Intelligence Source (CHIS) authorisation may be required.
 - iii. Officers should not use a false identity to disguise on-line activities. The use of a false identity should not be used for a covert purpose without authorisation.
 - iv. auditable records are to be retained when activity is carried out on the internet in a way in which staff may interact with others using public open websites e.g. social networking services or private exchanges where the party may not reasonably expected to know their identity. Managers are expected to regularly review the internet activity of their teams and maintain records.

4. EQUALITIES IMPLICATIONS

- 4.1 An equalities impact assessment will be carried out following the Audit Committees comments on the policy.

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.

- 5.2 Best Value: The report assists with the regularising decision-making in areas in which the Council is already active. The RIPA policy seeks to ensure that covert surveillance is targeted to the Council's policy objectives. This is likely to lead to efficient enforcement action rather than a less-controlled enforcement effort.
- 5.3 Environmental: The Enforcement policy which the RIPA Policy is attached to seeks to support the strategic plan which promotes and improves the economic, social and environmental wellbeing of Tower Hamlets. The extent that the Enforcement Policy aligns enforcement action with the Strategic Plan will tend to promote sustainable action for the environment.
- 5.4 Risk Management: Enforcement action has a variety of inherent risks, including the potential for over or under-enforcement, discrimination, adverse cost orders and damage to the Council's reputation. The principles of enforcement contained in the policy provide a sound basis for decision making that will reduce the likelihood of any adverse outcomes.
- 5.5 Crime reduction and Safeguarding: Enforcement in its broadest sense acts as a deterrent for crime and will therefore likely reduce all form of crime within the Borough. The Enforcement Policy sends a clear message to the perpetrator whilst supporting the victim, that the Council will undertake enforcement where necessary.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 This is a report of the proposed revised policies on the use of covert surveillance and the use of covert human intelligence sources under the Regulation of Investigatory Powers Act 2000. The introduction of a RIPA Social Media Policy is also proposed.
- 6.2 There are no financial implications arising from the recommendations in this report however the RIPA policies are designed to meet the Council's requirements to minimise the risk of fraud, error and omission to Council's services, finances and assets.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Council is obliged to have regard to the Covert Human Intelligence Sources Revised Code of Practice (August 2018) and the Covert Surveillance and Property Interference Code of Practice (August 2018) in accordance with Part II of the Regulation of Investigatory Powers Act 2000 when seeking to undertake covert surveillance, this includes surveillance by the use of social media.
- 7.2 Although, the preparation and publishing of the policy is not in itself a legal requirement. If the Council does not adopt a revised RIPA Policy and there is no common reference point, there is a risk that covert surveillance is inconsistently applied across different service areas. This might increase the

risk of legal challenge and reduce the fairness and effectiveness of the Council's approach to covert surveillance. The adoption of a policy is considered to be best working practice and will also assist the Councils to demonstrate that it has regard to the Codes of Practice.

- 7.3 Paragraphs 3.8 to 3.9 of the report makes reference to the obligations in the Investigatory Powers Act 2016. The Investigatory Powers Tribunal has jurisdiction to investigate and determine complaints against public authority use of investigatory powers.
- 7.8 The Council must have due regard to the Public Sector Equality Duty under the Equality Act 2010 when carrying out any functions including developing any policies that may have any effect on any protected persons, in particular the duty to eliminate discrimination, harassment and victimisation and advance equality of opportunity and fostering good relations.
- 7.9 The Council also have a duty under the Human Rights Act 1998, when carrying out any function, not to act incompatibly with rights under the European Convention for the Protection of Fundamental Rights and Freedoms.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix A – RIPA Policy – Covert Surveillance
- Appendix B – RIPA Policy – Covert Human Intelligence Source
- Appendix C – Social Media 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:

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APPENDIX 1

LONDON BOROUGH OF TOWER

HAMLETS

POLICY ON THE USE OF COVERT

SURVEILLANCE

REGULATION OF INVESTIGATORY

POWERS ACT 2000

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1. Introduction

1.1 The Regulation of Investigatory Powers Act 2000 (“RIPA”) provides a statutory framework for public authorities to use covert investigatory techniques such as surveillance, where necessary and proportionate, for the purpose of preventing or detecting crime and disorder. If such activities are conducted by council officers, then RIPA regulates the use of these powers in a manner that is compatible with the Human Rights Act 1998. Surveillance includes; monitoring, observing or listening to persons, monitoring or observing their movements, conversations or their other activities or communications, and the recording of anything monitored, observed or listened to in the course or surveillance. It also includes surveillance by or with the assistance of a surveillance device.

1.2 Part II of Chapter II RIPA sets out the provisions in relation to Directed Surveillance. This is covert surveillance that is not intrusive, but is carried out in relation to a specific

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investigation or operation in such a manner as is likely to result in the obtaining of private information about an individual (other than by way of an immediate response to events or circumstances, such that it is not reasonably practicable to seek authorisation under the 2000 Act). Surveillance is covert when the subject of the surveillance is unaware that it is being carried out. The provisions aim to regulate the use of these investigative techniques and to prevent the unnecessary invasion of the privacy of individuals.

1.3 Intrusive surveillance is covert surveillance that is carried out in relation to anything taking place on residential premises or in a private vehicle. Local authorities cannot authorise surveillance that is intrusive

1.4 Relevant Officers of the London Borough of Tower Hamlets are authorised in certain circumstances to use RIPA to undertake directed surveillance and access low level communications data in order to detect and prevent crimes

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such as anti-social behaviour, offences under the trading standards legislation, and fraud. Typical examples of directed surveillance include covertly following people, covertly taking photographs of them, and using hidden cameras to record their movements.

1.5 Whilst RIPA itself does not provide any specific sanction, where an activity occurs which should otherwise have been authorised, any evidence thereby obtained may be inadmissible in court. The activity may also be unlawful under the Human Rights Act 1998 and may result in an investigation by the Ombudsman and/or the Investigatory Powers Tribunal.

1.6 RIPA provides that responsibility for authorising directed surveillance, use of a Covert Human Intelligence Source (CHIS) or acquisition of communication data lies with a Divisional Director, Head of Service, Service Manager or equivalent. RIPA was amended by the Protection of Freedoms Act 2012. Since 1st November 2012 the internal

authorisation for such surveillance methods does not take effect until such time as a Magistrate has made an order approving it. The government introduced this requirement to impose a statutory check on local authorities and to ensure that powers are only used to prevent serious crime.

1.7 This Policy must be read in conjunction with the current Home Office Guidance and relevant Codes of Practice.

1.8 The Council has broad statutory functions and takes targeted enforcement action in relation to those functions having regard to the following

- The Tower Hamlets Plan
- The Tower Hamlets Strategic Plan
- The Tower Hamlets Local Plan
- Any external targets or requirements imposed under relevant legislation
- The Councils Enforcement Policy

1.9 There may be circumstances in the discharge of its statutory functions in which it is necessary for the Council to conduct

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directed surveillance for one or more of the following purposes

- Preventing or detecting crime where the offence attracts a maximum custodial sentence of 6 months or more or where the offence relates to the underage sale of alcohol, tobacco and other age-related products
- Preventing disorder where the disorder involves a criminal offence punishable by a maximum term of at least 6 months imprisonment, whether on summary conviction or on indictment

1.10 As a consequence of the Protection of Freedoms Act 2012 the council's use of RIPA is restricted to the following offences:

- An offence punishable by a maximum term of at least 6 months imprisonment
- An offence under section 146 of the Licensing Act 2013 (sale of alcohol to children)
- An offence under section 147 of the Licensing Act 2003 (allowing the sale of alcohol to children)
- An offence under section 147A of the Licensing Act 2003 (persistently selling alcohol to children);
or

- An offence under section 7 of the Children and Young Persons Act 1933 (sale of tobacco etc. to persons under eighteen)
- An offence under section 141A of the Criminal Justice Act 1988 (sale of knives and certain articles with blade or point to persons under sixteen)
- An offence under Regulation 31 of the Pyrotechnic Articles (Safety) Regulations 2015 (prohibition on making fireworks & other pyrotechnic articles available to persons younger than the minimum age limit)
- The crime or disorder detected or to be prevented, must meet the crime threshold. The crime threshold came into force on 1st November 2012 and only applies to directed surveillance

Basis for lawful surveillance activity

1.11 The Human Rights Act 1998 gave effect in UK Law to the rights set out in the European Convention on Human Rights (ECHR). Some of these rights are absolute, while others are qualified, meaning that it is permissible for the State to interfere with those rights if certain conditions are satisfied.

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Amongst the qualified rights is a person's right to respect for their private and family life, home and correspondence, as provided for by article 8 of the ECHR. It is Article 8 that is most likely to be engaged when public authorities seek to obtain private information about a person by means of covert surveillance. Article 6 of the ECHR, the right to a fair trial, is also relevant where a prosecution follows the use of covert techniques, particularly where the prosecution seek to protect the use of those techniques through public interest immunity procedures.

1.12 The Council understands that it is obliged to comply with the provisions of the Regulation of Investigatory Powers Act 2000 ("RIPA") in order to conduct directed surveillance. The Council believes that by complying with the provisions of RIPA, the Council should also ensure that any directed surveillance comes within the qualification in Article 8(2) of the ECHR and, accordingly, the Council should not breach its obligation under section 6(1) of the Human Rights Act 1998.

1.13 The Investigatory Powers Commissioner's Office (IPCO) has recommended as best practice that public authorities develop a corporate policy. The Council has had such a policy in effect since 27th July 2004. This document is the Council's corporate policy in relation to directed surveillance.

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The Council also has a policy in place in respect of the use of covert human intelligence sources, which is contained in a separate document.

1.14 The Council has prepared guidance notes and a procedure manual on the use of directed surveillance, which should be read with this policy.

1.15 The Investigatory Powers Commissioners Office is responsible for reviewing our activities under RIPA 2000. All authorities are subject to review and inspection.

Responsibilities

2.1 The Divisional Director, Legal Services is responsible for the following –

- Ensuring the proper implementation of this policy and the guidance and procedures that go with it.
- Ensuring the Council complies with the requirements of Part II of RIPA (directed surveillance)
- Ensuring that due regard is given to any code of practice issued pursuant to section 71 of RIPA.
- Engaging with commissioners and inspectors when they conduct inspections under RIPA.

- Overseeing the implementation of any recommendations made by a commissioner.

2.2 The Divisional Director Public Realm and Divisional Director Community Safety are the Council's authorising officers for the purposes of considering applications for authorisation to conduct directed surveillance, with the exception of cases where confidential information is either targeted or likely to be obtained. In these cases the Chief Executive should give authorisation, and in their absence, the person who is their deputy. If the Divisional Director Public Realm or Divisional Director Community Safety are unavailable and the Divisional Director Legal Services agrees that it is appropriate in respect of a specified application, then the Head of Audit and Risk or the Head of Community Safety may act as the Council's authorising officer in respect of that application. Confidential information includes, but is not limited to matters subject to legal privilege, confidential personal information, journalistic material, constituency business of MPs and finally confidential personal information relating to physical or mental health or spiritual counselling .

2.3 The Council considers that applications for authorisation to conduct directed surveillance should be of a high and consistent standard. For this reason, all applications should be cleared by a gate-keeper before consideration by the

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authorising officer. The Council's gate-keeper is the Head of Community Safety. In the absence of that officer, the Intelligence Team Leader, Risk Management & Audit may act as Gatekeeper although they must not act as the authorising officer for an application where they have been the gatekeeper.

- 2.4 All officers have responsibility to ensure that directed surveillance is only conducted where there is an authorisation from the authorising officer and a Justice of Peace has approved the authorisation.

3. Directed Surveillance

3.1 Terms used in this policy have the meanings given by RIPA or any relevant code of practice made under section 71 of RIPA.

3.2 Directed surveillance is surveillance which is covert (i.e. secret) but not intrusive, that is, it takes place other than in residential premises or private vehicles, and is undertaken:

- for the purposes of a specific investigation or a specific operation
- in such a manner as is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation); and
- it is conducted otherwise than by way of an immediate response to events or circumstances, the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of RIPA to be sought for the carrying out of the surveillance
- The surveillance must only be carried out for the purpose of preventing or detecting a criminal offence punishable by a maximum term of at least 6 months imprisonment.

- 3.3 Intrusive surveillance is covert surveillance that is carried out in relation to anything taking place on residential premises or in any private vehicle. It involves the presence of an individual inside the premises or in the vehicle, or is carried out by means of a surveillance device. Surveillance equipment mounted outside the premises will not be intrusive, unless the device consistently provides information of the same quality and detail as might be expected if they were in the premises/vehicle, e.g. by means of a zoom lens. The Council is not permitted to conduct intrusive surveillance under RIPA and so will not use intrusive surveillance. Where investigating officers in Trading Standards rely on the use of juveniles to carry out test purchases, an auditable record should be maintained.
- 3.4 In those circumstances, officers must complete a non RIPA form, setting out why such activity is necessary and proportionate and giving due consideration to any potential collateral intrusion. Necessity, proportionality and a risk assessment should be considered.
- 3.5 Non-RIPA forms must be authorised by Team Leaders /Principal Officers.

Priorities

4.1. The Council will use directed surveillance where an authorisation has been obtained under RIPA, and only in accordance with the terms of the authorisation and where a Justice of the Peace has approved the authorisation.

4.2. An authorisation may only be granted where

- it is necessary for one of the following purposes: (1) preventing or detecting crime; (2) preventing disorder;
- It complies with any additional conditions imposed by the Secretary of State under RIPA. From 1 November 2012 this means that the Councils use of RIPA is restricted to the following offences:
- An offence punishable by a maximum term of at least 6 months of imprisonment;
- An offence under section 146 of the Licensing Act 2003 (sale of alcohol to children);
- An offence under section 147 of the Licensing Act 2003 (allowing the sale of alcohol to children)
- An offence under section 147A of the Licensing Act 2003 (persistently selling alcohol to children); or

- An offence under section 7 of the Children and Young Persons Act 1933 (sale of tobacco etc. to persons under eighteen)
- An offence under section 141A of the Criminal Justice Act 1988 (sale of knives and certain articles with blade or point to persons under sixteen)
- An offence under Regulation 31 of the Pyrotechnic Articles (Safety) Regulations 2015 (prohibition on making fireworks & other pyrotechnic articles available to persons younger than the minimum age limit)

The action proposed must be necessary and proportionate and approved by a Justice of the peace

4.3. Having regard to the permitted purposes and to the requirements in the Council's Enforcement Policy that enforcement action should be targeted (to the Council's stated objectives), the Council's current priorities for the use of RIPA are –

- Anti-social behaviour
- Underage sales of knives, tobacco, alcohol and fireworks

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- Detecting and preventing Fraud, including misuse of disabled parking badges
- Unlawful street trading of tobacco
- Breach of Premises License conditions including touting
- Bribery Act offences

5. Authorisations

- 5.1 Prior to directed surveillance taking place RIPA provides that the surveillance must be authorised by the councils authorising officer as defined in section 2 of this policy and approved by a justice of the peace
- 5.2 Surveillance can only take place where it is for the purpose of preventing or detecting crime or of preventing disorder where the crime threshold is met and relates to an offence of the kind specified in paragraph 4.3 above. The authorisation and approval must ensure that the surveillance is both necessary and proportionate as well as limiting any potential collateral intrusion. Further the authorisation will need to consider whether confidential information is likely to be obtained as a result of the covert surveillance. Confidential information includes confidential personal information.
- 5.3 The Council is committed to only using directed surveillance in accordance with RIPA and the Code of Practice. The Council has adopted a guidance manual to assist officers to make applications and grant authorisations in accordance with RIPA and the Code. The Council will have regard to the most recent relevant Code of practice. The current Code came into force on 20 September 2018.

Procedure for authorising

5.4 The Council is committed to achieving a consistent high standard in applications for authorisation to conduct directed surveillance. All applications must first be submitted to the Council's gatekeeper as specified in section 2 of this Policy. Only when the gatekeeper has cleared the application may the authorised officer consider it.

5.5 Matters for the Authorising Officer to consider:

- The type of offence – Consider whether the application passes the crime threshold
- Necessity and proportionality -The 2000 Act first requires that the person granting an authorisation must believe that the authorisation is **necessary** in the circumstances of the particular case under section 28(3) (b) of RIPA. Once necessity is established then proportionality must be considered. Officers seeking an authorisation under the RIPA 2000 Act should ensure that there is a justifiable interference with an individual's Article 8 rights, i.e. it is necessary and **proportionate** for those activities to take place, and there is no less intrusive means of achieving the same aim.

The following elements of proportionality should be considered:

- Balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence;
- Explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others;
- Considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result;
- Evidencing, as far as reasonably practicable, what other methods have been considered and why they were not implemented

5.6 The above involves balancing the intrusiveness of the activity on the target subject and others who might be affected by it, against the need for the activity in operational terms. The activity will not be proportionate if it is excessive in the circumstances. Each case will be judged on and be unique on its merits. Consideration should be given to whether the information which are sought, could reasonably be obtained by other less intrusive means. All such activity must be carefully managed to meet the objective in question.

When setting out the proportionality of the surveillance, it is important that the applications include clear statements of the other reasonable possible methods of obtaining the desired information and the reasons why they have been rejected. This approach will also apply, equally to arguments for the necessity of surveillance.

5.7 Before authorising surveillance the Authorising Officer should take into account the risk of intrusion into the privacy of persons other than those who are directly the subjects of the investigation or operation (collateral intrusion). Measures should be taken, wherever practicable to avoid or minimise unnecessary intrusion into the lives of those not directly connected with the investigation or operation. Those carrying out the surveillance should inform the Authorising Officer if the investigation or operation unexpectedly interferes with the privacy of individuals who are not covered by the authorisation. As part of the process an assessment should be made of the risk of what is termed “collateral intrusion”. If collateral intrusion is inevitable, publication of the material/evidence obtained must be carefully controlled. If the evidence is used in court proceedings, it may be possible to deal with collateral intrusion by editing.

5.8 The authorising Officer should be aware of sensitivities in the

community to any directed surveillance.

- 5.9 The authorising Officer should be aware of similar activities being undertaken by other public authorities.
- 5.10 The Authorising Officer should have regard to the current Code of Practice
- 5.11 All authorisations are required to have a Unique Reference Number (“URN”) and the officer seeking the authorisation must obtain the URN from Legal Services at the time of preparing the application (i.e. prior to seeking authorisation) and the authorising officer should not authorise that authorisation unless a URN has been provided.
- 5.12 After the Council’s authorising officer has authorised the directed surveillance, they must immediately notify the Divisional Director Legal Services or nominee who will update the central record and make the necessary court application to obtain approval from a justice of the peace.

Magistrates Approval

- 5.13 Approval can only be given if the Magistrate is satisfied that:
- a) There were reasonable grounds for the authorising officer believing that the directed surveillance or deployment of a CHIS was necessary and

proportionate and that there remains reasonable grounds for believing so

- b) The authorising officer was of the correct seniority within the organisation, that is, a Divisional Director, Head of Service, Service Manager or equivalent
- c) The granting of the authorisation was for the correct purpose, that is, preventing and detecting crime and disorder and satisfies the serious offence test (crime threshold)
- d) Any other conditions set out in any order under Part 2 of RIPA are satisfied

No investigation may commence unless and until a Justices approval has been obtained.

5.14 Written authorisation may be given by the authorising Officer for 3 months

6 Duration/Review/Renewal

- 6.1 An authorisation for directed surveillance lasts for 3 months before having to be renewed. When authorising directed surveillance, the authorising officer is required to set a date for review of that authorisation. This is known as the first review. The Code of Practice requires regular reviews be undertaken by the authorising officer to assess the continuing need for the surveillance. The frequency of reviews must be considered at the outset by the authorising officer. Reviews should take place as frequently as is considered necessary and practicable, on a case by case basis. This frequency should increase where the surveillance is providing access to confidential material or involves collateral intrusion.
- 6.2 Authorisation forms do not expire, they must be reviewed, renewed, where necessary (by application to the court) or cancelled once they are no longer required, whether the surveillance is conducted or not.
- 6.3 During a review, the authorising officer who granted or last renewed the authorisation may amend specific aspects of the authorisation, for example, to cease surveillance against one or a number of named subjects or to discontinue the use of a particular tactic.

6.4 Authorisation for renewal is required to be approved by a Justice of the Peace at the Magistrates Court. Where applicable Authorisations should be renewed on application to the Court before the maximum period in the authorisation has expired. The Authorising Officer must consider the matter afresh including taking into account the benefits of the surveillance to date, and any collateral intrusion that has occurred. This will need to be explained to the Justice of the Peace. An authorisation cannot be renewed after it has expired.

6.5 Disseminating Information

There is likely to be a need to share information that has been provided through surveillance, both throughout the Council and with other public bodies where legally necessary. This should be limited to the minimum necessary and appropriate safeguards should be used.

6.6 Material and information that is obtained through surveillance must only be copied to the extent necessary. Copies include summaries and extracts.

7 Cancellations

- 7.1 If on a review, the authorising officer is satisfied that the authorisation is no longer necessary on the ground under which it was granted or renewed, or it is no longer proportionate to what is sought to be achieved by carrying it out, then the authorising officer must request that the authorisation be cancelled and no further surveillance under that authorisation is to be carried out.
- 7.2 The date the authorisation was cancelled should be centrally recorded and documentation of any instruction to cease surveillance should be retained. On cancelling a directed surveillance authorisation, it is good practice to keep a record detailing the product obtained from the surveillance and whether or not objectives were achieved, although there is no requirement to do so.

8. Retention and destruction of product surveillance

- 8.1 Where the product of surveillance could be relevant to pending or future criminal or civil proceedings, it should be retained in accordance with established disclosure requirements, or for a suitable period, and be subject to review. There is nothing in RIPA which prevents material obtained from properly authorised surveillance from being used in other investigations. Authorising Officers must therefore ensure that they follow the procedures for handling, storage and destruction of material obtained through the use of covert surveillance. Authorising Officers must also ensure compliance with the appropriate data protection requirements.

9. Combined Authorisations

- 9.1 From time to time, it may well be that the directed surveillance will be undertaken by a Covert Human Intelligence Source (“CHIS”). If it does, then both actions must be authorised. A single authorisation can combine the two, however, and this should be done on the application form used for the authorisation of the CHIS.

10. Security of Covert Technical Equipment

10.1 The Council also requires each Service that uses covert technical equipment when undertaking surveillance to ensure that such equipment is securely locked away when not used. Further, such equipment will only be issued to an officer who has authorisation to use it. There will be a logging in and out book and the officer will be required to sign for the equipment. In signing for the equipment, the officer will be reminded that misuse of the equipment is a disciplinary offence.

11. Communications Data

11.1 Before considering submitting an application for the acquisition of communications data, all officers must first refer the matter to the senior responsible officer or the RIPA Monitoring Officer

Communications Data ('CD') is the 'who', 'when' and 'where' of a communication, but not the 'what' (i.e. the content of what was said or written). Local Authorities are not permitted to intercept the content of any person's communications.

Part 3 of the Investigatory Powers Act 2016 (IPA) replaced part 1 chapter 2 of RIPA in relation to the acquisition of communications data (CD) and puts local authorities on the same standing as the police and law enforcement agencies. Previously local authorities have been limited to obtaining subscriber details (known now as "entity" data) such as the registered user of a telephone number or email address. Under the IPA, local authorities can now also obtain details of in and out call data, and cell site location. This information identifies who a criminal suspect is in communication with and whereabouts the suspect was when they made or received a call, or the location from which they were using an Internet service. This additional data is defined as "events" data.

11.2 A new threshold for which CD “events” data can be sought has been introduced under the IPA as “applicable crime”. Defined in section 86(2A) of the Act this means: an offence for which an adult is capable of being sentenced to one year or more in prison; any offence involving violence, resulting in substantial financial gain or involving conduct by a large group of persons in pursuit of a common goal; any offence committed by a body corporate; any offence which involves the sending of a communication or a breach of privacy; or an offence which involves, as an integral part of it, or the sending of a communication or breach of a person’s privacy. Further guidance can be found in paragraphs 3.3 to 3.13 of CD Code of Practice.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/757850/Communications_Data_Code_of_Practice.pdf

11.3 The IPA has also removed the necessity for local authorities to seek the endorsement of a Justice of the Peace when seeking to acquire CD. All such applications must now be processed through NAFN and will be considered for approval by the independent Office of Communication Data

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Authorisation (OCDA). The transfer of applications between local authorities, NAFN and OCDA is all conducted electronically and will therefore reduce what can be a protracted process of securing an appearance before a Magistrate or District Judge (see local authority procedures set out in paragraphs 8.1 to 8.7 of the CD Code of Practice).

12. Central Recording

12.1 A central register of all Authorisations, Reviews, Renewals, Cancellations and Rejections will be maintained and monitored by the Divisional Director Legal with regards to Directed Surveillance and CHIS.

12.2 The Council is required to keep records in relation to authorisations centrally. Those records will be maintained by Legal Services.

12.3 The relevant authorising officer must provide copies of all authorisations and all reviews, renewals and cancellations to the Divisional Director, Legal, or a person nominated by either of them. The authorisation officer must provide those documents forthwith i.e. within a week following signing by the authorising officer.

12.4 The Council will retain records for a period of at least three years from the ending of the authorisation. The Investigatory Powers Commissioner's Office (IPCO) may audit/review the Council's policies and procedures, and individual authorisations, Reviews, Renewals, cancellations and Rejections.

12.5 The documents to be stored will include:-

- A copy of the Forms together with any supplementary

documentation and notification of the approval given by the Authorising Officer and the Magistrates Court

- The date and time when any instruction was given by the Authorising Officer
- A record of the period over which the surveillance has taken place
- The frequency of reviews prescribed by the Authorising Officer
- A record of the result of each review of the authorisation
- A copy of any renewal of any authorisation, together with the supporting documentation submitted when the renewal was requested
- The unique reference number (URN) for the authorisation
- A record of the date of the cancellation of the authorisation

12.6 All officers are expected to use the most up to date versions of forms recommended by the Home Office.

13. Training

- 13.1 Authorising officers can only authorise, once they have undertaken training on the operation of RIPA and the Code of Practice. The Council's gatekeepers may only clear applications for consideration by the authorising officer after undertaking the same training as the authorising officers.
- 13.2 All officers who may seek to use directed surveillance during an investigation must also have undertaken training on the operation of RIPA and the Code of Practice.
- 13.3 The Council will arrange appropriate training courses at regular intervals. It is expected that members of the Corporate Leadership Team will require authorising officers, gatekeepers and those who may apply to conduct directed surveillance to undertake the training.

14. Member oversight

14.1 The Council's Audit Committee will review this Policy and have oversight of the Council's conduct of directed surveillance. If issues arise, the Audit Committee will make recommendations to Cabinet for action.

APPENDIX 2

(25.3.21)

LONDON BOROUGH OF TOWER

HAMLETS

POLICY ON THE USE OF COVERT

HUMAN INTELLIGENCE SOURCES

REGULATION OF INVESTIGATORY

POWERS ACT 2000

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1. Introduction

- 1.1 The Regulation of Investigatory Powers Act 2000 (“RIPA”) came into force on 26 July 2000 and provides a statutory framework for public authorities to use covert investigatory techniques, such as surveillance and covert human intelligence sources (CHIS), where necessary and proportionate, for the purpose of preventing or detecting crime and disorder. If such activities are conducted by council officers, then RIPA regulates the use of these powers in a manner that is compatible with the Human Rights Act 1998. RIPA sets out the circumstances in which the use of directed surveillance and CHIS may be authorised. Local authorities ability to use these investigation methods are restricted in nature and may only be used for the prevention and detection of crime or the prevention of disorder. In addition to defining the circumstances when these investigation methods may be used, RIPA also directs how applications should be made, and by whom. It also makes provision for the approval, review, renewal, cancellation and retention of records.
- 1.2 Part II of RIPA provides for the authorisation of the use and or conduct of covert human intelligence sources,

1.3 The Council has broad statutory functions and takes targeted enforcement action in relation to those functions having regard to the following:

- The Tower Hamlets Plan, adopted under section 4 of the Local Government Act 2000
- The Tower Hamlets Strategic Plan
- The Tower Hamlets Local Plan
- Any external targets or requirements imposed under relevant legislation.
- The Councils Enforcement Policy

This policy must be read in conjunction with the current Home Office Guidance and relevant Codes of Conduct.

1.4 The Council understands that it is obliged to comply with the provisions of RIPA, in order to use covert human intelligence sources. The council believes that by complying with the provisions of RIPA, the Council should also ensure that any use of CHIS comes within the qualification provided in Article 8(2) of the European Convention on Human Rights (ECHR) and, accordingly the Council should not breach its obligations under section 6(1) of the Human Rights Act 1998.

1.5 Whilst RIPA itself does not provide any specific sanction where an activity occurs, which should otherwise have been authorised, any evidence thereby obtained may be inadmissible in court, the activity may also be unlawful under the Human Rights Act 1998, and may result in an

investigation by the Ombudsman/or the Investigatory Powers Tribunal.

- 1.6 The use of CHIS involves any action on behalf of a public authority to induce, ask or assist a person to engage in the conduct of CHIS, or to obtain information by means of the conduct of a CHIS. In general, therefore, an authorisation for use of CHIS will be necessary to authorise the steps taken by the Council in relation to a CHIS, and the conduct of the CHIS. It is necessary to ensure that the CHIS is clear on what is and is not authorised at any given time and that all the CHIS activities are properly risk assessed.
- 1.7 RIPA provides that responsibility for authorising directed surveillance and use of a CHIS lies with a Divisional Director, Head of Service, Service Manager or equivalent. The Protection of Freedoms Act 2012 amended RIPA so that local authorities must obtain an order from a judicial authority approving an authorisation before it can take effect. This requirement has been in force since 1st November 2012. Parliament introduced this requirement to put a statutory check on local authorities and to ensure that powers are only used to stop serious crime.
- 1.8 The Investigatory Powers Commissioner's Office (IPCO) has recommended as best practice that public authorities develop a corporate policy. The Council has had such a policy in effect since 27 July 2004. This document is the

councils corporate policy in relation to covert human intelligence sources, the council also has a policy in place in respect of the use of directed surveillance, which is contained in a separate document.

- 1.9 The council has prepared guidance notes and a procedure manual on the use of CHIS, which should be read with this policy.
- 1.10 The Investigatory Powers Commissioners Office is responsible for reviewing the activities under RIPA 2000. All Councils' are subject to review and inspection.

2. Definition of Covert Human Intelligence Sources (CHIS)

- 2.1 A person is a CHIS if he/she establishes or maintains a personal or other relationship with a person for the covert purpose of obtaining information or to provide access to any information to another person, or to disclose information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship.
- 2.2 Not all human sources of information will fall within this definition, and so an authorisation under RIPA will not always be appropriate. A person who reports suspicions of an offence is not a CHIS. It is only if they establish or maintain a personal relationship with another person, for the purpose of covertly obtaining or disclosing information that they become a CHIS. By way of example, people who complain about anti-social behaviour, and are asked to keep a diary will not normally be a CHIS as they are not required to establish or maintain a relationship for a covert purpose. A test purchase, where a straight transaction takes place where there is no interaction between buyer and seller is not a CHIS.
- 2.3 A relationship is established or maintained for a covert purpose, if and only if, it is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.

- 2.4 A relationship is used covertly and information obtained is disclosed covertly, if and only if, the relationship is used or the information is disclosed in a manner calculated to ensure that one of the parties to the relationship is unaware of the use and disclosure.
- 2.5 “Establishes” in a relationship means “set up”. Therefore it does not require, as “maintain” does, endurance over a particular period of time. Whether or not a relationship exists depends on all the circumstances, including the length of time of the contact between two people and the nature of the covert activity.
- 2.6 In some cases, members of the public may volunteer or provide information that is within their personal knowledge, without being asked or tasked to do so by a local authority. In such a case a relationship will not have been established or maintained for a covert purpose, and as a consequence the source will not be a CHIS for the purposes of RIPA, and no authorisation under RIPA will be required.
- 2.7 In some circumstances the local authority may task a person to obtain information covertly and this may result in authorisation under Part II of RIPA. However this will not be true in all circumstances, for example, where the tasks given to a person do not require that person to establish or maintain a relationship for the covert purpose of obtaining, providing access to, or disclosing the information sought, or

where the information is already within the personal knowledge of the individual. In those circumstances the person will not be a CHIS.

2.8 An individual who because of their work or role has access to personal information may voluntarily provide information to the council on a repeated basis and will need to be managed appropriately. The Council must keep such human sources under constant review to ensure that they are managed with an appropriate level of sensitivity and confidentiality and to establish whether at any given stage, they should be authorised as a CHIS. Determining the status of an individual is a matter of judgment by the Council.

2.9 The times when the Local Authority will use a CHIS are limited.

2.10 If there is a need to use a CHIS who is a juvenile, it will be necessary to obtain the written consent of the juvenile's parent or responsible adult, prior to authorisation. The duration of such an authorisation is four months (with monthly reviews), as opposed to 12 months, as it is for the other types of CHIS authorisation. There are additional safeguards for juveniles identified within the Regulation of Investigatory powers (Juveniles) Order 2000 and the relevant Code of Practice.

2.11 The use of vulnerable persons should only be considered for authorisation as a CHIS in the most exceptional circumstances. These are individuals who are or maybe by reason of mental disorder vulnerability, other disability, age, illness is or maybe unable to take care of or protect themselves.

2.12 There may be occasions when the Local Authority may wish to use a CHIS as part of directed surveillance. It should be noted that the crime threshold which applies to directed surveillance does not apply to the use of a CHIS. As regards directed surveillance, the local authority can only authorise the use of surveillance under RIPA to prevent or detect criminal offences which are punishable by a maximum term of at least 6 months imprisonment (whether on summary conviction or on indictment) or are related to the underage sale of alcohol or tobacco. The crime threshold came into effect on 1st November 2012.

2.13 Unlike directed surveillance, which relates specifically to private information, authorisation for the use or conduct of a CHIS do not relate specifically to private information, but to the covert manipulation of a relationship to gain information. ECHR case law makes it clear that article 8 includes the right to establish and develop relationships. Accordingly, any manipulation of a relationship by the local authority is likely to engage article 8, regardless of whether or not the local authority intends to acquire private information. The local

authority will therefore consider an authorisation wherever the use or conduct of a CHIS is likely to engage an individual right under Article 8 of the ECHR, whether this is through obtaining information, particular private information, or simply through the covert manipulation of a relationship.

3. Responsibilities

3.1 The Divisional Director, Legal Services is responsible for the following –

- The integrity of the process in place for the management of CHIS
- Ensuring the proper implementation of this policy and the guidance and procedures that go with it.
- Ensuring the Council complies with the requirements of Part II of RIPA.
- Ensuring that due regard is given to any code of practice issued pursuant to section 71 of RIPA.
- Engaging with commissioners and inspectors when they conduct inspections under RIPA.
- Overseeing the implementation of any recommendations and post inspection action plans made by a commissioner.

3.2 The Divisional Director Public Realm and Divisional Director Community Safety are the Council's authorising officers for the purposes of considering applications for authorisation to

use covert human intelligence sources, with the exception of cases where confidential information is either targeted or likely to be obtained. If the Divisional Director, Public Realm or Divisional Director Community Safety are unavailable and the Divisional Director Legal agrees that it is appropriate in respect of a specified application for authorisation, then the Head of Fraud and Risk may act as the Council's authorising officer in respect of that application.

3.3 In cases where the covert human intelligence source is targeted to obtain confidential information or confidential information is likely to be obtained, then the Council's authorising officer is the Chief Executive, or, in the Chief Executive's absence, the person acting as Chief Executive. Confidential information includes but is not limited to matters subject to legal privilege, confidential personal information, journalistic material constituency business of MPs and finally confidential personal information relating to physical or mental health or spiritual counselling.

3.4 The Council considers that applications for authorisation to use covert human intelligence sources should be of a high and consistent standard. For this reason, all applications should be cleared by a gatekeeper before consideration by the authorising officer. The Council's gate-keeper is the Head of Community Safety. In the absence of that officer, the Intelligence Team Leader- Audit & Risk Management may act as the Gatekeeper.

- 3.5 All officers have responsibility to ensure that covert human intelligence sources are only used where there is an authorisation from the authorising officer, and a Justice of the Peace has approved the authorisation.
- 3.6 Section 29 of the 2000 Act deals with the responsibilities of the controller and handler relating to the record keeper for any covert human intelligence source. Officers nominated to control, handle and record-keep in respect of a covert human intelligence source must be trained to the satisfaction of both the authorising officer and the Divisional Director, Legal before any authorisation may be granted.
- 3.7 The Council is committed to only using directed surveillance in accordance with RIPA and the Code of Practice. The Council has adopted a guidance manual to assist officers to make applications and grant authorisations in accordance with RIPA and the Code. The Council will have regard to the most recent relevant Code of practice. The current Code came into force on 20 September 2018.

4. Authorisations

- 4.1 Prior to a CHIS being used RIPA provides that the use must be authorised by the Councils authorising Officer as defined in section 3 of this policy.
- 4.2 The Authorising Officer must believe that an authorisation for the use and conduct of a CHIS is necessary in the circumstances of the particular case on the ground specified in section 29(3) of RIPA, being, for the prevention and detection of crime or the prevention of disorder.
- 4.3 If the use or conduct of the CHIS is deemed necessary on the relevant ground, the Authorising Officer must also believe that it is proportionate to what is sought to be achieved by carrying it out. This involves balancing the seriousness of the intrusion into the private or family life of the subject of the operation (or any person who may be affected) against the need for the activity in investigative and operational terms.
- 4.4 The Authorisation will not be proportionate if it is excessive in the overall circumstances of the case. Each action authorised should bring an expected benefit to the investigation or operation and should not be disproportionate or arbitrary. The fact that a suspected offence may be serious will not alone render the use or conduct of a CHIS proportionate. Similarly, an offence may be so minor that any deployment of a CHIS would be disproportionate. No activity should be considered proportionate if the information which

is sought could reasonably be obtained by other less intrusive means.

Proportionality

4.5 The following matters should be considered:

- Balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence
- Explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others
- Considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives of obtaining the necessary result
- Evidencing, as far as reasonably practicable, what other methods had been considered and why they were not implemented.

Collateral Intrusion

4.6 Before authorising the use or conduct of a source, the authorising officer should take into account the risk of interference with the private and family life of persons who are not intended subjects of the CHIS activity (collateral intrusion). Measures should be taken, wherever practicable, to avoid or minimise interference with the private and family life of those who are not the intended subjects of the CHIS activity. Where such collateral intrusion is unavoidable, the activities may still be authorised providing this collateral

intrusion is considered proportionate to the aims of the intended intrusion. Any collateral intrusion should be kept to the minimum necessary to achieve the objective of the operation. All applications should therefore include an assessment of the risk of any collateral intrusion, and details of any measures taken to limit this, to enable the Authorising Officer to fully consider the proportionality of the proposed use or conduct of a CHIS

- 4.7 Where the use of the CHIS is likely to result in the obtaining of confidential information, the activity must be authorised by the Chief Executive or on their absence the Monitoring Officer. Confidential information includes but is not limited to matters subject to legal privilege, confidential personal information and confidential journalistic material.
- 4.8 The Authorising Officer should be clear as to the reason why the CHIS is necessary and the nature of the conduct that the CHIS will be involved in.

Security and Welfare

- 4.9 Where the council deploys a CHIS, it should take into account the safety and welfare of that CHIS when carrying out actions in relation to the authorisation or tasking. Before authorising the use of or conduct of a CHIS, the authorising officer should ensure that a risk assessment is carried out to

determine the risk to the CHIS of any tasking and the likely consequences should the role of the CHIS become known.

4.10 The ongoing security and welfare of the CHIS after the cancellation of the authorisation, should also be considered at the outset. Consideration should also be given to the management of any requirement to disclose information tending to reveal the existence or identity of a CHIS to, or in, court

Extent of authorisations

4.11 Any authorisation under Part II of RIPA for the use or conduct of a CHIS will provide lawful authorisation for any such activity that:

- Involves the use or conduct of a CHIS as is specified or described in the authorisation
- Is carried out by or in relation to the person to whose actions as a CHIS, the authorisation relates; and
- Is carried out for the purposes of, or in connection with, the investigation or operation described

It is important that the CHIS is fully aware of the extent and limits of any conduct authorised and that those involved in the use of a CHIS are fully aware of the extent and limits of the authorisation in question.

Duration of authorisation

4.12 A written authorisation will, unless reviewed, cease to have effect at the end of 12 months, beginning with the day it took effect, except in the case of juvenile CHIS when it lasts for four months.

5. Combined authorisations

5.1 A single authorisation may combine two or more different authorisations. For example an authorisation for directed surveillance and the conduct of a CHIS. This does not preclude the local authority from obtaining separate authorisations.

6. Reviews and Renewals

Reviews

6.1 Regular reviews of authorisations should be undertaken by the Authorising Officer to assess whether it remains necessary and proportionate to use a CHIS and whether the Authorisation remains justified. The review should include the use made of the CHIS during the period authorised, the tasks given to the CHIS and the information obtained from the CHIS. The results of the review should be retained for at least three years. Reviews of authorisations should take place as frequently as considered necessary and practicable. Where the use of a CHIS provides access to confidential information or involves significant collateral intrusion authorisations should be reviewed more frequently.

6.2 An authorisation for use of a CHIS lasts for a maximum of 12 months before having to be renewed.

Renewals

6.3 Before an Authorising Officer renews an authorisation, he must be satisfied that a review has been carried out of the use of a CHIS, as outlined above and that the results of the review have been considered.

6.4 If before an authorisation would cease to have effect, the authorising officer considers it necessary for the authorisation to continue for the purpose for which it was given, he may renew it in writing for a further period of twelve months.

6.5 A renewal takes effect at the time at which the authorisation would have ceased to have effect but for the renewal. An application for renewal should therefore not be made until shortly before the authorisation period is drawing to an end.

7. Cancellations

- 7.1 The authorising officer who granted or renewed the authorisation must cancel it if it is satisfied that the use or conduct of the CHIS no longer satisfies the criteria for authorisation or the grounds on which it was granted.
- 7.2 Where necessary, the safety and welfare of the CHIS should continue to be taken into account after the authorisation has been cancelled.

8. Controller/Handler

8.1 The Council is required to ensure that arrangements are in place for the proper oversight and management of a CHIS, including appointing individual officers as defined in section 29(5)(a) of RIPA. Where the use of a CHIS is authorised then section 29(5)(a) of RIPA requires the Council to have at all times a person holding a position with the Council who will have day-to-day responsibility for dealing with the source (“the handler”). This will not be the officer seeking authorisation but will be the responsibility of the person who supervises the investigation.

8.2 The person identified as the handler will have day to day responsibility for:

- Dealing with the CHIS on behalf of the authority concerned
- Directing the day to day activity of the CHIS
- Recording the information supplied by the CHIS
- Monitoring the CHIS’s security and welfare

The CHIS handler is responsible for bringing to the attention of the CHIS controller any concerns about the personal circumstances of the CHIS in so far as they might affect the validity of the risk assessment, the conduct of the CHIS, and the safety and welfare of the CHIS. In appropriate circumstances the authorising officer should consider whether or not to allow the authorisation to continue.

- 8.3 Further, section 29(5)(b) of RIPA requires the Council to have at all times another person holding a position with the Council who will have general oversight of the use made of the source (“the controller”). The controller is the officer responsible for the general oversight of the use of the source. The controller will be the Service Manager for the Service in which the officer seeking the authorisation is based so that the Service Manager will be the controller and will be the person managing the handler.
- 8.4 The Council will not permit an authorising officer to be responsible for authorising their own activities, e.g. those in which they, themselves, are to act as the source or in tasking the source. Therefore if the authorising officer would be the Service Manager for the handler then a Service Manager of the same level from another Service will be the controller.
- 8.5 Additionally, section 29(5)(c) of RIPA requires the Council to have at all times a person holding a position with the Council who will have responsibility for maintaining a record of the use made of the CHIS. This will be the Service Head (i.e. the Service Manager’s manager) responsible for the service area using the covert human intelligence source. If the service area falls within the authorising officer’s responsibility, then the Corporate Director of Place must maintain the record.

8.6 Guidance suggests that a local authority may prefer to seek the assistance of the police to manage its CHIS. In such a case a written protocol between the parties should be produced in order to ensure that an identified CHIS is properly managed. Without such an agreement the local authority must be capable of fulfilling its statutory responsibilities. Where the CHIS is not a Council Officer then the intention is to seek assistance of the police. Where the CHIS is a Council Officer then prior to the authorisation being sought, the investigating officer must give consideration to seeking the assistance of the Police and if it is decided not to, then justification for that decision must be included within the risk assessment for the use of the CHIS.

9. Security of Covert Technical Equipment

9.1 The Council requires each Service that uses covert technical equipment when undertaking surveillance to ensure that such equipment is securely locked away when not used. Further, such equipment will only be issued to an officer who has authorisation to use it. There will be a logging in and out book and the officer will be required to sign for the equipment. In signing for the equipment, the officer will be reminded that misuse of the equipment is a disciplinary offence.

10. Central Recording

10.1. The Council is required to keep records in relation to authorisations centrally. Those records will be maintained by Legal Services. These records should be updated whenever an authorisation is granted, renewed or cancelled and should be available to the relevant Commissioner or an Inspector upon request. Records should be retained for at least 3 years from the end of the authorisation to which they relate.

10.2. The relevant authorising officer must provide copies of all authorisations and all reviews, renewals and cancellations to the Divisional Director, Legal, or a person nominated by either of them. The authorisation officer must provide those documents forthwith following signing by the authorising officer.

10.3. All officers are expected to use the most up to date versions of forms recommended by the Home Office.

11. Training

- 11.1 Authorising officers can only authorise once they have undertaken training on the operation of RIPA and the Code of Practice. The Council's gatekeepers may only clear applications for consideration by the authorising officer after undertaking the same training as the authorising officers.
- 11.2 Officers may only undertake the roles of controller, handler, or record-keeper if they have undertaken training in the discharge of those roles. If there are no officers who have been trained to the satisfaction of the authorising officer and the Divisional Director - Legal, then the Council will not use covert human intelligence sources.
- 11.3 All officers who may seek to use covert human intelligence sources during an investigation must also have undertaken training on the operation of RIPA and the Code of Practice.
- 11.4 The Council will arrange appropriate training courses at regular intervals. It is expected that members of the Corporate Leadership Team will require authorising officers, gatekeepers and those who may apply to conduct directed surveillance to undertake the training.

12. Member Oversight

12.1 The Council's Standards Committee review this Policy and will have oversight of the Council's use of covert human intelligence sources. If issues arise, the Audit s Committee will make recommendations to Cabinet for action.

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Appendix 3

Social Media Policy

It is important to be aware that the use of social media in an investigation could, depending on how it is used and the type of information that is likely to be obtained, constitute covert activity that requires authorisation under RIPA.

Generally, researching 'open source' material would not require authorisation. However, return visits to build up a profile could alter the position as it could constitute directed surveillance depending on the circumstances. 'Open source' materials are those that can be viewed on social media without becoming a subscriber, follower or friend.

The internet may be used to gather intelligence and/or as a surveillance tool. Where online monitoring or investigation is conducted covertly for the purpose of specific investigation or operation it is likely to result in obtaining private information about a person or group, an authorisation for directed surveillance should be considered. Where a person acting on behalf of a public authority is intending to engage with others without disclosing their identity, a Covert Human Intelligence Source (CHIS) authorisation may be required. (then 4.16)

Where an officer intends to access a social media or other online account where they have been given access with the consent of the owner, the Council will still need to consider whether the account may contain information about others who have not given their consent. If this is likely to include private information about others, a directed surveillance authorisation should be considered, especially where there is an intention to monitor the account.

Where an officer is required to register providing personal identifiers (such as a name or phone number) before access to the site, RIPA authorisation will not be required. Officers should not a false identity to disguise online activities. The use of a false identity should not be used for a covert purpose without authorisation.

A preliminary examination of social media to establish whether the site or its contents are of interest is unlikely to interfere with a person's reasonable expectation of privacy and is not likely to require a directed surveillance authorisation. However, if there is a systematic recording of information about a particular person or group, a directed surveillance authorisation is likely to be required.

Where general monitoring is being undertaken of the internet in circumstances where it is not part of a specific, ongoing investigation or operation to identify themes, trends or factors that may influence operational strategic will not require RIPA authorisations. If the activity leads to discovery of previously unknown subjects or interest, once it is decided to monitor those individuals as part of an ongoing operation or investigation authorisation should be considered.

To determine whether a directed surveillance authorisation should be sought for accessing information on a website as part of a covert investigation or operation, it is necessary to look at the intended purpose and scope of the online activity it is proposed to undertake. Factors that should be considered in establishing whether a directed surveillance authorisation is required include:

- Whether the investigation or research is directed towards an individual or organisation;
- Whether it is likely to result in obtaining private information about a person or group of people (eg names, telephone numbers ,and address details)
- Whether it is likely to involve visiting internet sites to build up an intelligence picture or profile
- Whether the information obtained will be recorded and retained;
- Whether the information is likely to provide an observer with a pattern of lifestyle;
- Whether the information is being combined with other sources of information or intelligence, which amounts to information relating to a person's private life;
- Whether the investigation or research is part of an ongoing piece of work involving repeated viewing of the subject(s);
- Whether it is likely to involve identifying and recording information about third parties, such as friends and family members of the subject of interest, or information posted by third parties, that may include private information and therefore constitute collateral intrusion into the privacy of these third parties.

To ensure that no unauthorised online covert surveillance takes place within the Council, please ensure that advice is sought from Legal Services

Recording Social Media Activity

Auditable records should be retained when activity is carried out on the internet in a way which staff may interact with others by using publicly open websites eg social networking services or private exchanges such as e.messaging sites, in circumstances where the other party may not reasonably be expected to know their true identity. Managers are expected to regularly review the internet activity of their teams and maintain records as they may be requested by the RIPA assessor . A template is attached.

To ensure that council resources are used in a controlled, auditable and manner please refer to the relevant Codes of Practice –

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742041/201800802_CSPI_code.pdf

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742042/20180802_CHIS_code .pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742042/20180802_CHIS_code.pdf)

Non-Executive Report of the: Audit Committee 7 th April 2021	
Report of: Janet Fasan, Divisional Director Legal & Interim Monitoring Officer	Classification: Unrestricted
Report of Investigations under the Regulation of Investigatory Powers Act (RIPA)	

Originating Officer(s)	Agnes Adrien – Head of Litigation
Wards affected	All wards

Executive Summary

The codes of practice issued by the Home Office in relation to Part 2 of the Regulation of Investigatory Powers Act 2000 (“**RIPA**”) recommend that elected members have oversight of the Council’s use of these provisions. This report summarises the Council’s use of those powers but also other activities under RIPA.

The Investigatory Powers Act 2016 (“**IPA**”) is the main legislation governing the acquisition of communications data. It is recommended that the elected members receive reports on the use of the IPA.

Recommendations:

The Audit Committee is recommended to:

1. Consider and comment upon the information provided in the report.

1. **REASONS FOR THE DECISIONS**

- 1.1 The information in the report is provided so that elected and independent members may oversee the Council’s use of powers under RIPA and IPA.

2. **ALTERNATIVE OPTIONS**

- 2.1 It is open to members to provide such comments on the Council’s use of RIPA powers as they consider appropriate.

3. **DETAILS OF THE REPORT**

Covert investigation and RIPA

- 3.1 The Council has broad statutory functions and takes targeted enforcement action in relation to those functions, having regard to the Tower Hamlets Plan adopted by S48 Local Government Act 2000, the Council's Strategic Plan any external targets or requirements imposed under relevant legislation and the Council's enforcement policy. There may be circumstances in the discharge of its statutory functions in which it is necessary for the Council to conduct directed surveillance or use a covert human intelligence source for the purpose of preventing crime or disorder.
- 3.2 RIPA was enacted to provide a framework within which a public authority may use covert investigation for the purpose of preventing or detecting crime or of preventing disorder. It is designed to ensure that public authorities do not contravene the obligation in section 6(1) of the Human Rights Act 1998 not to act in a way which is incompatible with an individual's rights under the European Convention on Human Rights ("ECHR"). It is particularly concerned to prevent contravention of the qualified right in Article 8 of the ECHR to respect for private and family life, home and correspondence.

The Council's use of RIPA

- 3.3 The Divisional Director Legal Services & Interim Monitoring Officer is the senior responsible officer for ensuring the Council complies with RIPA.
- 3.4 The Council has policies on the use of directed surveillance or covert human intelligence sources. The current versions of these policies were approved by Cabinet on 24 April 2019, as appendices to the Council's enforcement policy. The Council has in place guidance manuals to assist officers in the authorisation process. The Enforcement policy was reviewed in April 2019.
- 3.5 The Council's current priorities for using RIPA, as specified in its policies are –
- Fly-tipping
 - Underage sales of knives, tobacco, alcohol and fireworks
 - Fraud, including misuse of disabled parking badges and claims for housing benefit
 - Illegal money-lending and related offending
 - Breach of licences
 - Touting
- 3.6 The Council may only use covert investigation for the purposes of serious offences. This means an offence of the following kind –
- An offence punishable by a maximum term of at least 6 months of imprisonment.

- An offence under section 146 of the Licensing Act 2003 (sale of alcohol to children).
 - An offence under section 147 of the Licensing Act 2003 (allowing the sale of alcohol to children).
 - An offence under section 147A of the Licensing Act 2003 (persistently selling alcohol to children).
 - An offence under section 7 of the Children and Young Persons Act 1933 (sale of tobacco etc. to persons under eighteen).
 - An offence under section 141A of the Criminal Justice Act 1988 (sale of knives and certain articles with blade or point to persons under sixteen)
 - An offence under Regulation 31 of the Pyrotechnic Articles (Safety) Regulations 2015 (prohibition on making fireworks & other pyrotechnic articles available to persons younger than the minimum age limit)
- 3.7 The Council must also have approval from a court, in addition to an internal authorisation granted by its authorising officer, before carrying out covert surveillance.
- 3.8 In accordance with the Council's policies and manuals, a central record is maintained in Legal Services of all authorisations and approvals granted to carry out either directed surveillance or to use covert human intelligence sources (authorisations under Part 2 of RIPA). The Council provides an annual return to the Investigatory Powers Commissioners (who replaced the Office of Surveillance Commissioners ("OSC")), based on the central record.
- 3.9 In order to ensure that applications for RIPA authorisation are of an appropriate standard, the Council's policies and manuals provide that all applications for authorisation to conduct directed surveillance or to use covert human intelligence sources should be considered by a gatekeeper before being passed on to the authorising officer. The Council's gatekeeper is the Head of Community Safety within the Community Safety Service) and the Intelligence Team Leader Risk Management may act as Gatekeeper in their absence. It is proposed that the latter post is to be changed to the Investigation Manager following a restructure. The gatekeeper must work with applicant officers to ensure an appropriate standard of applications, including that applications use the current template, correctly identify known targets and properly address issues of necessity, proportionality and collateral intrusion.
- 3.10 The Council has two authorising officers (Divisional Director Public Realm, Divisional Director Community Safety), who have responsibility for considering applications to use directed surveillance or covert human intelligence sources. The policies provide that the Head of Fraud & Risk may stand in for the Service Head, Safer Communities where the Divisional Director and Interim Monitoring Officer considers it necessary.
- 3.11 The Council's policies and manuals require officers who apply for RIPA authorisations to expeditiously forward copies of authorisations, reviews and cancellations to Legal Services for the central record. Where officers propose to undertake covert surveillance, tasking meetings will take place to ensure

the central record is being kept up to date. The Council's authorising officer and gatekeeper will attend. The meetings will provide an opportunity to check the status of applications and authorisations under RIPA and a forum at which officers may present any operations plans where covert investigation may be required and seek a steer from those at the meeting.

The Council's RIPA applications since 2017

- 3.12 Since 2017 no applications have been made to court for RIPA authorisations.
- 3.13 The council have used the resources of the police and their statutory powers to tackle many issues since 2014/2015. In addition, the change can also be accounted for owing to more use of overt uniformed enforcement officers dealing with a wider range of offences and more combined partnership working with the police. Joint working has been suspended over the last year due to COVID 19.
- 3.14 Training was provided in September 2020 for authorising officers, gatekeepers, officers in Trading Standards, licensing, social workers, ASB, and officer in Community Safety.
- 3.15 Refresher training will be provided on an annual basis.

Covert Human Intelligence Sources

- 3.16 There were no authorisations granted for authorisation to use covert human intelligence sources. This is consistent with the Council's policy, which requires officers to first demonstrate to the satisfaction of the Divisional Director Legal Services that they have the skill and experience to handle a covert human intelligence source, before seeking authority to use a covert human intelligence source.

Interception of communications

- 3.17 The Investigatory Powers Act 2016 ("IPA") came into force on 11 June 2019. This is the main legislation governing the acquisition of communications data. The interception of communications is regulated by the Office for Data Communication Authorisation (OCDA).
- 3.18 Communications data is information about communications: the 'who', 'where', 'with whom' and 'how' of a communication but not the content i.e. Not what was actually said or written. It is the communication that can be acquired. E.g. if during a Council investigation into criminal activity, who a particular mobile telephone was registered to was required, this information could be obtained. This would be communications data.

- 3.19 The IPA introduced offences for the unlawful acquisition and disclosure of communications data. The most relevant offence to local authorities is unlawfully obtaining communications data. For an offence to take place, providing communications or unlawfully obtaining data must be done either knowingly (i.e. acting voluntarily or intentionally) or recklessly (e.g. with obvious/foreseeable consequences). Making an honest mistake is not an offence.
- 3.20 A person who is guilty of an offence on summary conviction is liable to a fine or on indictment to imprisonment to a term not exceeding 2 years to a fine, or both.
- 3.21 The acquisition of communications data by local authority officers is no longer subject to judicial approval by a magistrate. There is a requirement for a local authority making an application to ensure that someone at least the rank of Service Manager is aware that the application is being made before it is submitted to OCDA. An authorising officer in OCDA can authorise any lawful request for any of the specified purposes from any listed public authority.
- 3.22 There has been one authorisation for communications data since 2017. This was granted in December 2019 and related to a Trading Standards matter.

Inspections in 2020

- 3.23 The Council was last inspected by the Investigatory Powers Commissioner in April 2020. The next inspection is due to take place in 2023.

4. EQUALITIES IMPLICATIONS

- 4.1 [Report authors should identify from analysis and engagement how the proposals will address equality implications arising from the proposal.

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 Enforcement action that complies with the seven principles expressed in the Council's enforcement policy should help to achieve the objectives of equality and personal responsibility inherent in One Tower Hamlets.
- 5.3 The enforcement policy should enhance Council efforts to align its enforcement action with its overall objectives disclosed in the Tower Hamlets Plan and other key documents such as the local area agreement and the Tower Hamlets Strategic Plan, Tower Hamlets Local Plan. For example, one of the key Tower Hamlets Plan themes is A Great Place to Live. Within this theme there are objectives such as reducing graffiti and litter. The enforcement policy makes clear the need to target enforcement action towards such perceived problems. At the same time, the enforcement policy should discourage enforcement action that is inconsistent with the Council's objectives.
- 5.4 Enforcement action may lead to indirect discrimination in limited circumstances, but this will be justified where the action is necessary and proportionate. Necessity and proportionality are key considerations in respect of every application for authorisation under RIPA.

BEST VALUE (BV) IMPLICATIONS

- 5.5 The report does not propose any direct expenditure. Rather, it is concerned with regularising decision-making in areas in which the Council is already active. The enforcement policy seeks to ensure that enforcement action is targeted to the Council's policy objectives. This is more likely to lead to efficient enforcement action than a less-controlled enforcement effort. It is also proposed that members will have an oversight role through the Audit Committee. This will provide an opportunity to judge whether the Council's enforcement action is being conducted efficiently.

SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 5.6 The enforcement policy seeks to target the Council's enforcement action in accordance with the Community Plan. The Community Plan contains the Council's sustainable community strategy for promoting or improving the economic, social and environmental well-being of Tower Hamlets and contributing to the achievement of sustainable development in the United Kingdom. To the extent that the enforcement policy aligns enforcement action with the Tower Hamlets Plan it will tend to promote sustainable action for a greener environment.

RISK MANAGEMENT IMPLICATIONS

- 5.7 Enforcement action carries with it a variety of inherent risks, including the potential for allegations of over- or under-enforcement, discrimination, adverse costs orders and damage to the Council's reputation. It is considered that proper adherence to RIPA, the codes of practice, the Council's policies and guidance will ensure that risks are properly managed. Oversight by the

Audit Committee should also provide a useful check that risks are being appropriately managed.

CRIME AND DISORDER REDUCTION IMPLICATIONS

5.8 As set out in paragraphs 3.1 and 3.2 of the report, the Council's use of covert investigation may be a necessary part of its enforcement work but must be carried out having regard to the requirements of RIPA.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 This is a report of the Council's use of the Regulation of Investigatory Powers Act 2000 ("RIPA") and the use of the Investigatory Powers Act 2016 to the Audit Committee. There are no financial implications arising from the recommendations in this report.

7. COMMENTS OF LEGAL SERVICES

7.1 Legal implications are addressed in the body of the report.

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
-
- State NONE if none.

Appendices

- List any appendices [if Exempt, Forward Plan entry MUST warn of that]
- State NONE if none.

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.

- These must be sent to Democratic Services with the report
- State NONE if none.

Officer contact details for documents:

Or state N/A

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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>Wednesday, 7 April 2021</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Divisional Director, Legal Services and Monitoring Officer</p>	<p>Classification: Open (Unrestricted)</p>
<p>Whistleblowing Annual Report</p>	

Executive Summary

This report provides members with an annual report in relation to the Council's whistleblowing arrangements in accordance with paragraph 6.1 of the Council's Whistleblowing Policy.

Recommendations:

The Audit Committee is recommended to:

1. Consider and note the content of this report.
2. Approve the proposed minor changes to the Whistleblowing Policy identified as track changes in Appendix A

1. REASONS FOR THE DECISIONS

- 1.1 The Whistleblowing Policy provides for the Monitoring Officer to review the Council's whistleblowing arrangements annually and report to the Audit Committee. It is considered best practice in many authorities for the Audit Committee to receive an annual report in relation to whistleblowing. The provision of an annual report to the Committee increases the profile of whistleblowing across the organisation and affords the opportunity to highlight areas of good practice and identify any requirements for improvement.

2. ALTERNATIVE OPTIONS

- 2.1 Not applicable.

3. DETAILS OF THE REPORT

- 3.1 As part of the first annual review of whistleblowing arrangements last year, the Council's whistleblowing processes were assessed against the requirements of the Department for Innovation & Skills Code of Practice for employers on whistleblowing (issued in March 2015). The assessment demonstrated substantial compliance and only one area was identified as requiring further action. This was the need to update intranet and webpage content to include direct links to the Whistleblowing Policy and Whistleblowing Procedure and ensure alignment of intranet and internet pages. This action was completed last summer.
- 3.2 The current Whistleblowing Policy was approved by the Audit Committee in January 2021. The Policy is attached as Appendix A and includes proposed minor amendments to reflect current operational practice. The suggested revisions are shown as track changes and Members are asked to consider and approve the proposed amendments.
- 3.3 An internal audit of the whistleblowing arrangements was completed in May 2019 and last autumn a follow up review was carried out by the internal audit service and completed in October 2020. Following that review it was agreed that date and version control should be introduced for the Whistleblowing Policy and associated procedures and this will be implemented once the proposed revisions to the Policy in Appendix A have been considered and approved by the Committee. Also arising out of the follow up review, the Head of Internal Audit has agreed to include yearly reviews of whistleblowing records in the Annual Audit Plan and a standard form is being developed to obtain feedback from whistleblowers on the operation of the Council's whistleblowing arrangements.
- 3.4 The take up of whistleblowing training by staff continues to be positive and the training has now been included in the mandatory training section of the

Learning Hub. As of 22 March 2021, 3614 employees had completed the online e learning module, which is an increase of 1230 in the past year.

- 3.5 Between 1 April 2020 and 31 March 2021, fifteen concerns were notified to the Monitoring Officer under the Council's whistleblowing arrangements. A full investigation of one matter (WB 07/2020) has been completed under the Whistleblowing Procedure. This was an anonymous allegation of improper social work practice referred for consideration by the Divisional Director Children's Social Care. The Divisional Director commissioned an investigation which concluded there was no evidence of failure to follow child protection procedures and/or proper social work practice.
- 3.6 Another three matters (WB 02/2021, WB 03/2021 and WB 04/2021) are currently subject to initial enquiries by the appropriate Divisional Director/Deputy Monitoring Officer as potentially requiring investigation. WB 02/2021 is an anonymous allegation of improper recruitment and employment practices and is subject to initial enquiries by HR with oversight from the Divisional Director. WB 03/2021 is an anonymous allegation about improper practice in the award of Council contracts. WB 04/2021 is an allegation of victimisation by a member of staff for being suspected as a previous whistleblower and is subject to review by the Head of Internal Audit and the Deputy Monitoring Officer.
- 3.7 The other eleven concerns raised as potential whistleblows between 1 April 2020 and 31 March 2021 are listed below. These concerns were either most appropriately dealt with as a service issue by the relevant Divisional Director/Head of Service, or not subject to investigation under the Whistleblowing Procedure after being reviewed by the relevant Divisional Director and the Deputy Monitoring Officer. In some instances whistleblowers were also referred to external organisations such as HMRC, the Health & Safety Executive and the police.
- WB 02/2020: Anonymous allegations of failure to take appropriate action in respect of Covid 19 infections in a school.
 - WB 03/2020: Issues raised by a member of staff about the Council's employee sickness reporting system, recording of sickness in pay advices and statutory sick pay accounting.
 - WB 04/2020: Concerns from a local resident about road closures resulting in increased traffic, pollution and an inability to comply with social distancing requirements.
 - WB 05/2020: Allegations from a local resident about the operation of a local business and landlord/property owner. Fraud in order to purchase industrial equipment, operation of equipment without proper protective clothing, operation of equipment without taking into account fire and electrical safety, operation of equipment without regard for the health of customers. Tax evasion, importing foreign goods for sale and without

declaring dangerous plant and animals to customs authorities. The illegal supply of drugs.

- WB 06/2020: Anonymous allegations of failure to follow HR appointment and allocation of work procedures, including inequality of treatment.
- WB 08/2020: Anonymous allegations about market traders and their assistants not properly declaring their income to employers, HMRC and the DWP.
- WB 09/2020: Anonymous allegations that school staff have been appointed without following proper process and the staff are receiving excessive payments.
- WB 10/2020: Concerns from a local resident about a breach of trading standards at a Food & Wine Store.
- WB 11/2020: Allegations by a local resident of breaches of social distancing requirements queuing at a coffee shop.
- WB 12/2020: Anonymous allegations of failure to take appropriate action in respect of Covid 19 infections in Council offices.
- WB 01/2021: Issues raised by a member of staff about the commissioning of external service provision.

4. EQUALITIES IMPLICATIONS

- 4.1 Effective whistleblowing arrangements assist the Council is maintaining compliance with equalities legislation.

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 Robust whistleblowing arrangements help to ensure the proper, efficient and effective discharge of the Council's functions and contribute to compliance

with the requirement to achieve best value. They also enhance the Council's ethical standards and risk management arrangements.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial implications for the Council arising from this report.

7. COMMENTS OF LEGAL SERVICES

7.1 The statutory basis for whistleblowing is contained in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). It provides the right for a worker to take a case to an employment tribunal if they have been victimised at work or they have lost their job because they have 'blown the whistle'.

7.2 The law does not require employers to have a whistleblowing policy in place but it is accepted good practice for the Council, as an employer, to create an open, transparent and safe working environment where workers feel able to speak up. The Department for Business Innovation & Skills Whistleblowing Code of Practice provides that it is best practice for employers to have a whistleblowing policy or appropriate written procedures in place.

7.3 The current whistleblowing arrangements confirm the employee's statutory rights and aim to create an organisational culture where employees feel safe to raise a concern in the knowledge that they will not be victimised in doing so.

Linked Reports, Appendices and Background Documents

Linked Reports: None

Appendices:

Appendix A: Whistleblowing Policy (including proposed amendments identified as track changes)

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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LONDON BOROUGH OF TOWER HAMLETS

WHISTLEBLOWING POLICY

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



1. INTRODUCTION

- 1.1 Tower Hamlets is committed to the highest standards of behaviour, openness, probity and accountability of all employees, Councillors and its contractors and as such takes very seriously any form of malpractice that is identified or discovered.
- 1.2 Whistleblowing is the term used when a worker passes on information concerning wrongdoing. The wrongdoing will typically (although not necessarily) be something you have witnessed at work.
- 1.3 An important aspect of accountability and transparency is a mechanism to enable Councillors, employees, contractors, suppliers and partners to voice concerns about such wrongdoings in a responsible and effective manner. You may be worried about raising such issues or may want to keep the concerns to yourself, perhaps feeling it's none of your business or that it's only a suspicion. You may not express your concerns because you feel that speaking up would be disloyal to your colleagues, managers, or to the Council. You may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.
- 1.4 We expect employees, and others that we deal with, who have serious concerns about any aspect of the Council's work which you believe shows serious malpractice or wrongdoing within the Council to bring it to our attention and this Policy puts an easy mechanism in place to report your concerns and to raise issues.
- 1.5 All employees of London Borough of Tower Hamlets may use this Policy. This includes permanent and temporary employees. It also covers agency workers and employees seconded to the Council.
- 1.6 Contractors working for the Council may also use this Policy in order to make us aware of any concerns that they, their employees or sub-contractors may have with regard to any contractual or other arrangement with the Council. Any concerns relating to non-Council business, however, should be raised with the relevant contractor's organisation, regulator or other suitable agency.

2. SCOPE

- 2.1 This Policy and associated procedures (see 2.3 below) is not designed to be used where more appropriate procedures are available. For example, your issue may be a personal grievance about a problem or concern you have about your work, working conditions or relationships with colleagues. If so, then these should raise these with your line manager in the first instance or use the Council's Dispute Resolution processes.
- 2.2 Further, this Policy and procedures are in addition to the Council's complaints procedures and other statutory reporting procedures applying to Directorates. You

are responsible for making service users aware of the existence of these additional procedures.

- 2.3 In addition to this Policy the Council has a Whistleblowing Procedure which is available on the intranet, together with a flow chart to guide staff through the whistleblowing process and guidance documents for managers and those appointed to investigate whistle blows made under this Policy. The Policy and its procedures/guidance are designed to enable you to raise concerns at a high level and to disclose information which you believe shows malpractice, impropriety, criminal activity, or dangers to health and safety. This policy is intended to cover concerns which are in the public interest and may at least initially be investigated separately but might then lead to the instigation of other procedures e.g. disciplinary.
- 2.4 Further you need to be acting in the public interest and which is why personal grievances and complaints are not usually covered by this Policy.
- 2.5 The Policy is intended to cover concerns where you reasonably believe that the disclosure tends to show past, present or likely future wrongdoing falling into one or more of the following categories:
- criminal offences (this may include, for example, types of financial impropriety such as fraud);
 - unauthorised use or misuse of public funds
 - failure to comply with an obligation set out in law;
 - abuse of position, whether or not for personal gain
 - miscarriages of justice;
 - endangering of someone's health and safety;
 - damage to the environment;
 - conduct which may damage the Council's reputation;
 - other unethical conduct; and
 - covering up wrongdoing in the above categories.

3. OUR ASSURANCES TO YOU

Your safety

- 3.1 The Mayor, Councillors, the Chief Executive and Corporate Leadership Team are committed to this Policy and recognise that the decision to report a concern can be a difficult one to make. If you raise a genuine concern under this Policy and follow the Whistleblowing Procedure, you should have nothing to fear, you will not be at risk of losing your job or suffering any form of retribution as a result. Provided you are acting in good faith, it does not matter if you are mistaken, no action will be taken against you.
- 3.2 It is important to note that this assurance does not extend to those who make malicious or vexatious allegations or who make an allegation for personal gain. This could be construed as gross misconduct and disciplinary action may be taken against you.

Statutory protection

- 3.3 Whistleblowing law is located in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). It provides the right for you to take a case to an employment tribunal if you have been victimised at work or you have lost their job because they have 'blown the whistle'. This is on the basis that you have a reasonable belief that what you have reported is true and the report is in good faith.

Harassment or victimisation

- 3.4 The Council will not tolerate any harassment or victimisation (including informal pressures) from your colleagues, peers, managers, or from external sources, and will take appropriate action to protect you when you raise a concern in good faith.
- 3.5 Any investigation into allegations of potential malpractice will not influence or be influenced by any disciplinary, capability, or redundancy procedures that already affect you.
- 3.6 If you consider that you have been, are being or are likely to be victimised, dismissed, made redundant or made to suffer some other detriment as a result of making a report under this procedure, you should report your concerns to the Council's Monitoring Officer. The matter will then be dealt with as a new referral under this Policy.

Your confidentiality

- 3.7 We will treat all concerns raised in a confidential and sensitive manner. Your identity will be kept confidential so long as it does not hinder or frustrate any investigation. However, the investigation process could reveal the source of the information and you may need to provide a statement as part of the evidence required. In such cases, we will always ask your consent to disclose your identity. Further, it is always possible that your identity could be guessed.

Anonymous allegations

- 3.8 It is not unusual for individuals who are thinking about raising a concern to want to make it anonymously. However it is best that concerns are raised openly as it makes it easier for consideration and investigation of the concern. It is recognised, however, that there are circumstances when you would wish to keep your identity confidential.
- 3.9 Anonymous concerns including those that have a point of contact to which correspondence can be sent (e.g. an email address) will be considered at the discretion of the Council. In exercising this discretion the following factors will be taken into account
- the seriousness of the issues raised;
 - the credibility of the concern; and
 - the likelihood of confirming the allegation from attributable sources.
- 3.10 Whilst we do not rule out the possibility of conducting investigations where you have not given a point of contact, it should be noted that, in practice, we

are unlikely to be able to proceed in the majority of such cases because of the practical difficulties that arise. No contact point will often present a barrier to effective investigation because it is impossible to contact you to check information received, ask for more details, or give feedback.

4. THE RESPONSIBLE OFFICER

- 4.1 The Monitoring Officer has overall responsibility for the maintenance and operation of this policy.

5. RECORDING AND MONITORING

- 5.1 The Monitoring Officer will maintain a confidential and secure register of all concerns raised through this Whistleblowing Policy. Investigations undertaken as a result of concerns being raised through these channels will be reported to the Audit Committee. Furthermore, weaknesses in Tower Hamlets controls may be identified through our investigations and recommendations to improve these will be raised with relevant managers, Internal Audit and Chief Officers.

- 5.2 All records will be treated as confidential and kept no longer than necessary in accordance with Data Protection rules. Individuals have a right to request and have access to certain personal data: however, some information may be withheld in order to protect a third party.

6. REVIEW OF WHISTLEBLOWING POLICY

- 6.1 This Policy and reports made under it will be reviewed annually by the Monitoring Officer who will make a report to the Audit Committee.

7. EXTERNAL CONTACTS

- 7.1 Whilst we hope this Policy gives you the reassurance you need to raise such matters internally, we would rather you raised a matter with the appropriate regulator than not at all. If you do not wish to report your concern to the Monitoring Officer: you can get legal advice from a lawyer, or tell a prescribed person or body.

- 7.2 A Prescribed person or body as set out in the “prescribed persons list” published by the Department for Business, Innovation and Skills. The organisations and individuals on the list have usually been designated as prescribed persons because they have an authoritative or oversight relationship with the sector, often as a regulatory body. An up-to-date list can be found here:

<https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2>

- 7.3 If you tell a prescribed person or body, it must be one that deals with the issue you are raising, e.g. a disclosure about wrongdoing in a care home can be made to the Care Quality Commission.
- 7.4 If you raise concerns outside the Council you should ensure that it is to either one of the prescribed persons or bodies as set out in the “prescribed persons list” published by the Department for Business, Innovation and Skill. Through this Policy however, the Council also guarantees like protection if it is a qualified disclosure made to:
- The Police
 - PROTECT 020 3117 2520 <https://protect-advice.org.uk>
(The whistleblowing charity who can give advice and help on whistleblowing)
 - The Local Government Ombudsman
0300 061 0614
http://www.lgo.org.uk/forms/ShowForm.asp?fm_fid=62
- 7.5 You should not disclose information that is confidential to the Council or to anyone else, such as a client or contractor of the Council, except to either one of the prescribed persons or bodies as set out in the “prescribed persons list” or 7.4 above.

Non-Executive Report of the: Audit Committee 7 th April 2021	
Report of: Chair of Audit Committee – Cllr Val Whitehead	Classification: Unrestricted
Audit Committee Annual Report 2020/21	

Originating Officer(s)	Farhana Zia
Wards affected	All wards

Executive Summary

The Chair’s Audit Committee Annual Report is produced to reflect on the achievements of the Committee and is reported to Council. The report relates to the activity of the Committee in 2020/21.

Reference within the report assumes the draft accounts for 2018/19 and 2019/20, which are to be considered by the Committee at this meeting, will be presented and approved by the Committee. Should the accounts not be approved the report will be amended accordingly.

Recommendations:

The Audit Committee is recommended to:

1. Note and approve the Chair’s Annual Report before this is presented to Council.

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AUDIT COMMITTEE ANNUAL REPORT 2020/2021

Foreword by the Chair of the Audit Committee

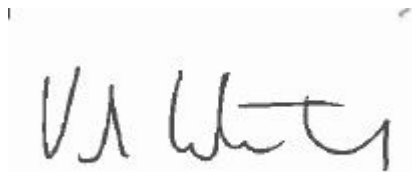
This has been a year like no other for Councillors and their support teams. I would like to thank our team for their work in making it possible for us to carry on meeting our objectives.

We have made some progress in meeting CIPFA guidance by carrying out our own self-assessment process and have an improvement plan in place for next year.

We have continued to receive reports from Internal Audit and have reviewed Fraud and Risk Management. I would like to thank the teams who continued to do this work throughout the pandemic restrictions.

We have worked with External Audit and the Finance team in order to not only bring the outstanding Accounts to a close but to set up systems which will allow swift and accurate finance reporting for the future.

Lastly, I would like to thank my fellow Councillors for continuing to scrutinise all the Council does. I have not been able to see you in person this year, but I sincerely hope next year will allow us to meet again in the Town Hall.

A handwritten signature in black ink, appearing to read 'Val Whitehead', is centered on the page.

Councillor Val Whitehead, Chair of the Audit Committee

Introduction

Audit Committees are a key component of the Council's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

The Audit committee is required, by its terms of reference, to submit an annual report to Council outlining the Audit Committee's activities over the previous year. This report summaries the work of the Audit Committee during 2020/2021 and how it has undertaken its responsibilities for reviewing the key areas within its remit. Specifically, these include:

- Internal Audit;
- Risk Management;
- Corporate Governance;
- Internal Control
- External Audit
- Counter Fraud; and
- Financial reporting and treasury management.

Terms of reference

The terms of reference for the Audit Committee are reviewed each year to ensure they represent current regulations and best practice as outlined within guidance for audit committees from the Chartered Institute of Public Finance and Accountancy (CIPFA) and are attached at **Appendix A**.

The terms of reference are reviewed by the Audit Committee on an annual basis at its first meeting of the municipal year, usually at the July meeting. However due to the Covid-19 pandemic, the Annual General meeting (AGM) of the Council did not take place until the end of September 2020. As such the terms of reference were presented to the Audit Committee on the 12th November 2020 meeting, with three meetings scheduled for the municipal year. Namely, 12th November 2020, 28th January, and 7th April 2021.

There was a meeting held on the 21st July 2020, which formed part of the 2019/2020 municipal year, however will be referred to in this Annual report so to ensure all meetings that took place are reflected on, since the last report to Council.

Committee Information

Audit Committee Membership 2019/20 – for July 2020 meeting

Eight elected Members serve on the committee plus the Independent Person:

- Councillor Val Whitehead (Chair)
- Councillor Abdal Ullah (Vice-Chair)

- Councillor Mufeedah Bustin (Member) *
- Councillor Marc Francis (Member)
- Councillor Ehtasham Haque (Member)
- Councillor Ayas Miah (Member)
- Councillor Kyrsten Perry (Member)
- Councillor Andrew Wood (Member)
- Charlotte Webster (Independent Person)

There are four substitute members

- Councillor Mohammed Ahbab Hossain (Substitute)
- Councillor Gabriela Salva-Macallan (Substitute)*
- Councillor Bex White (Substitute)*
- Councillor Peter Golds (Substitute)

The substitute members identified with a *, have substituted for Councillor Mufeedah Bustin, who was on maternity leave, with each councillor covering one meeting respectively.

Audit Committee Membership 2020/21

Eight elected Members serve on the committee plus the Independent Person:

- Councillor Val Whitehead (Chair)
- Councillor David Edgar (Vice-Chair)
- Councillor Marc Francis (Member)
- Councillor Ayas Miah (Member)
- Councillor Puru Miah (Member)
- Councillor Kyrsten Perry (Member)
- Councillor Dan Tomlinson (Member)
- Councillor Andrew Wood (Member)
- Charlotte Webster (Independent Person)

There are four substitute members

- Councillor Kevin Brady (Substitute)
- Councillor Abdal Ullah (Substitute)
- Councillor Bex White (Substitute)
- Councillor Peter Golds (Substitute)

Audit Committee Meetings

The Committee has met on four occasions during the year with meeting dates structured around the regular receipt of annual assurance reports, external and internal audit cycles and statutory requirements around the production of the Accounts and the Annual Governance Statement.

The frequency of meetings ensures the Committee can fulfil its responsibilities in an efficient and effective way. The number of meetings are aligned to the recommendations made by CIFPA.

The July meeting of the Committee is particularly important, as the Annual Statement of Accounts and the agreement of the Annual Governance Statement takes place. However due to the extensive work required to correct the 2018/19 and 2019/20 set of accounts, the Committee has received regular updates on the progress made. Members have had the opportunity to probe the accounts and comment on the Annual Governance Statement which accompanies the accounts.

Committee Business

A list of reports considered by the Audit Committee can be found in **Appendix B**. The main outcomes of the committee's work in relation to its core functions can be summarised as follows:

Internal Control

The Committee:

- Received and considered the Head of Internal Audit's annual opinion on the Council's governance, risk management and internal control environment for 2019/20.
- Received and considered regular reports from the Head of Internal Audit on audits of internal controls, risk management and governance. The reports also provided monitoring information on the implementation of agreed audit recommendations. Members specifically considered the following limited or nil assurance reports raised by the Head of Internal Audit during in year:
 - IT Business Continuity and Resilience
 - Financial Delegations
 - Financial Safeguarding for Service Users with Learning Disability
 - Monitoring of Domiciliary Care Contracts
 - Corporate Governance
 - IR35 – Management and Control of Off Payroll Engagement
 - Back up Schedules and Protection
 - Control and Monitoring of Parking Permits
 - Financial Assessments for Residential and Non-Residential Support
 - Capital Programme Governance

- Management of Acquisition of Properties for Temporary Accommodation
 - Corporate Governance
 - PCI and DSS Compliance
 - Management of Appointeeships and Deputyships
 - Cyber and Network Security
 - Treasury Management
 - IT Remote Working
 - Debtors and Income Recovery
 - Local Community Fund
 - General Ledger
 - New Town Hall
 - Pension's Administration
 - Staff Declarations of Interest
 - Housing and Allocations
- Requested the attendance of senior officers responsible for these areas to attend Audit Committee meetings to explain the remedial action taken and if recommendations made by the Internal Audit team had been implemented.
 - Continued to provide support to the Internal Audit Team to ensure management was responsive to recommendations made and agreed.

Risk Management

The Committee:

- Received and considered quarterly updates on Risk Management activity across the Council.
- Received and considered quarterly updates on the Corporate Risk Register.
- Received and considered the Risk Management Strategy.
- Deep-dived Directorate Risk registers – Place & Resources

Anti-Fraud

The Committee:

- Received and considered quarterly updates on the Fraud investigations undertaken by the Corporate Fraud team. The team investigated over 250 cases of alleged fraud.
- Reviewed the Anti-Bribery Policy, Whistleblowing Policy and Anti-Fraud and Corruption Strategy.

Financial Reporting

The Committee:

- Received and considered the Council's Treasury Management Strategy and performance.
- Received regular reports on the progress to revise and finalise the Council's 2018/2019 and 2019/20 Statement of Accounts.

Internal Audit:

The Committee:

- Agreed the Internal Audit Plan for 2020/21.
- Received and approved the Internal Audit and Anti-Fraud Charter
- Received and considered information on the performance and effectiveness of the Internal Audit Team.

External Audit:

The Committee:

- Received and considered the External Audit Plan.
- Received and considered reports on the External Auditor's progress against the agreed plan.

Governance:

The Committee:

- Oversaw the production of the 2018/19 and 2019/20 Annual Governance Statements
- Held the Mayor, Corporate Leadership Team and Senior Managers to account in relation to governance and performance issues within the organisation.

Approval of 2018/19 & 2019/20 Annual Financial Accounts

The Annual Financial Accounts are signed off by the Committee in July each year. However, the Financial Accounts for 2018/19 and 2019/20 were delayed due to issues regarding the accounting procedures and records. The methodology used has been scrutinised by the external auditors and issues have been worked through to ensure that going forward the Council has robust accounting procedures in place. The Chair and Committee members have received regular updates on the progress being made and are pleased to report the Annual Financial Accounts for 2018/19 and 2019/20 were approved by the Committee at its April 2021 meeting.

Approval of 2018/19 and 2019/20 Annual Governance Statements

The 2018/19 draft Annual Governance statement was presented to Committee on several occasions and was updated taking into account the views of Members. The Chief Executive Mr Will Tuckley attended the Committee's April and July 2020 meetings, when he presented Annual Governance Statement and commented upon the overall health and governance culture in the organisation. The final version of the Annual Governance Statement for 2018/19 was agreed by the Committee at the July 2020 meeting. The Committee subsequently received and agreed the 2019/20 Annual Governance Statement at its meeting in January 2021.

Training and Development

Training and development of members has been provided to Members of the Audit Committee. Members have received specific training on their roles and responsibilities with training provided on key areas such as financial accounting and risk management. Training sessions are held approximately a week before the main meeting of the Committee. Below are the dates of the training sessions held and the topics covered:

Audit Training Date	Audit Committee Mtg Date	Training on
Monday, 9 th November 2020	Thursday, 12 th November 2020	Treasury Management
Thursday, 14 th January 2021	Thursday, 28 th January 2021	Statement of Accounts; Accounting Policies
Wednesday, 31 st March 2021	Wednesday, 7 th April 2021	Risk Management
	Carry forward to new municipal year.	Internal Audit (to include mention of External Audit) and Anti-Fraud

Audit Committee Effectiveness – Self Assessment

In 2021 the Audit Committee considered its own performance by means of a self-assessment; eight members of the Committee responded. In summary, the self-assessment identified the following positive areas of performance.

Members of the Committee:

- Fully understand their role and expected contribution.
- Believe the committee is the right size with a good mix of knowledge, skills and experience.

- Have received sufficient induction and training.
- Understood and recognised the role and benefits of the Independent Person.
- Have held sufficient, appropriate length meetings.
- Have received timely and accurate reports.
- Have recorded decisions and communicated them appropriately.
- Have recorded and tracked actions arising from the meetings.
- Believe the committee operates in an atmosphere of trust and openness.
- Have held effective meetings
- Maintain a professional, constructive relationship with Internal and External Audit.
- Have discharged the Committee's responsibilities as set out in the Terms of Reference.
- Have reviewed outcomes from Internal Audit's activity and challenged management on progress.
- Have reviewed and challenged risk management.
- Have discussed external audit results and monitored managements progress with actions.

The following areas were identified for improvement:

- Be more proactive in consider emerging issues.
- Be more proactive in reviewing and providing feedback on the performance of Internal and External Audit.
- To meet privately with Internal and External Audit, at least annually.

Conclusions

In conclusion, the Audit Committee has demonstrated that it has added value to the Council's overall governance, risk management and internal control framework.

Throughout 2021-22, the Audit Committee will continue to require senior officers to attend meetings to aid its understanding of the services and issues identified through the audit process, but also to ensure that internal and external recommendations are given the priority required and implemented in a timely basis.

In addition, the Audit Committee will meet privately with Internal Audit and External Audit (at least once during 21/22) will review the performance of Internal Audit and External Audit and give feedback to both, and will explore the inclusion of a horizon scanning item to the Committee's agenda to identify emerging issues that might require assurance and/or review by the Committee.

Audit Committee

Summary Description:	
<ol style="list-style-type: none"> 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. 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. 	
Membership: 8 Councillors. The Audit Committee shall not be chaired by a Member of the Executive.	
Independent Person: 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.	
Functions	Delegation of Functions
<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 and monitor the implementation of agreed actions.	None
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"> a. Updates on the work of internal audit including key findings, issues of concern and management actions as a result of internal audit work. b. Regular reports on the results of the Quality Assurance and Improvement Programme (QAIP). 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. 	None
18. To consider the Head of Internal Audit's annual report, including: <ul style="list-style-type: none"> a. The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement. 	None

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.	
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 governance on issues arising from the audit of the accounts.	None

<u>Accountability arrangements</u> 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.	None
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
Quorum: 3 Members of the Committee	

AUDIT COMMITTEE AGENDA ITEMS – FROM JULY 2020 TO MAY 2021

Reports	21 st July 2020	12 th November 2020	28 th January 2021	7 th April 2021
Annual Financial Accounts 2018/19 & 2019/20 – progress reports	✓	✓	✓	✓
Annual Governance Statement 2018/19 & 2019/20	✓ (2018/19)		✓ (2019/20)	
Annual Insurance Report 2019-2022	✓			
Annual Internal Audit and Counter-Fraud Strategy Plan	✓		✓ (Update of Anti-Fraud Strategy)	
Annual Review of Anti-Bribery Policy			✓	
Annual Risk Management Report 2018/19				
Annual Self-Assessment and report of the Audit Committee 2019/20 & 2020/21	✓ (2019/20)			✓ (2020/21)
Anti-Money Laundering Policy Report 2019-2020				✓
Audit Committee Terms of Reference		✓		
External Audit Report – Year end 31/03/20		✓		
Head of Internal Audit Annual report 2019/20	✓			
Independent Review of Accounts Closure 2018/20 and Improvement Plan		✓	✓	
Internal Audit & Anti-Fraud Report Q1, Q2, Q3 & Q4	✓	✓	✓	✓
Internal Audit Charter				✓
Review of Code of Corporate Governance	✓ (2019/20)			✓ (2020/21)
RIPA Policy 2020				✓
Risk Management Report Q1, Q2, Q3 & Q4	✓	✓	✓ (plus Place Directorate Risk	

			Register)	
Risk Management Strategy	✓			
Treasury Management Mid-Year Report 2020-21		✓		
Treasury Management Report 2019/20		✓		
Treasury Management Strategy Statement, Investment Strategy & Capital Strategy report 2020-21			✓	
Whistleblowing Report	✓ (2019/20)		✓ (Update of Whistleblowing Strategy)	✓ (2020/21)

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AUDIT COMMITTEE WORK PLAN 2020/21

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Last updated:	23 rd March 2021

AUDIT COMMITTEE WORK PLAN 2020/21

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
7TH APRIL 2021			
1. Deloitte	Standing Item •	Jonathan Gooding/Angus Fish	
2. Audit of the Council's Accounts 2018/19 & 2019/20 –	A report of the progress being made toward the completion of the audits of both the 2018/19 and 2019/20 accounts	Kevin Bartle / Marion Kelly/ Tim Harlock	
3. Finance Improvement Plan		Kevin Bartle/ Marion Kelly	
4. Accounting Policies		Ahsan Khan	
5. 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	
6. Risk Management Report 2020-21	An update of risks on the Corporate Risk Register and Resources/Governance Risk Register.	Paul Rock	
7. Annual Internal Audit and Counter-Fraud Strategy & Plan	Draft Internal Audit Plan for 2021/22. For review and approval by the Committee.	Paul Rock	Item deferred to 29/07/21 mtg
8. Internal Audit Charter	Annual review and approval of the Internal Audit Charter	Paul Rock	Item deferred from 28/01/21 mtg
9. Review of Code of Corporate Governance 2020/21	To report on an annual basis. Monitoring Officer. Approval in July 2021 with Annual Accounts.	Janet Fasan/ Mark Norman/ Matthew Mannion	
10. Anti-Money Laundering Policy Report 2019 -2020	Annual Report updating the Anti-Money Laundering Policy.	Janet Fasan/Rachel Mckoy	Report deferred from 12/11/20 & 28/01/21 mtg

AUDIT COMMITTEE WORK PLAN 2020/21

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
11. RIPA Policy 2020	Regulation of Investigatory Powers Act 2000 (RIPA) relates to covert surveillance. A report updating Members on the policy and use of these powers, in accordance with the code of practice. Reviewed Annually.	Agnes Adrien	Report deferred from 12/11/20 & 28/01/21mtg
12. Whistleblowing Report 2020-21	To report on an annual basis. Monitoring Officer	Janet Fasan / Mark Norman	
13. Draft Terms of reference for 2021-22	Review. To be approved in July 2021	Farhana Zia/Paul Rock	Deferred to July 2021 mtg
14. 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	
15. Audit Committee Work Plan	Review and agree items on the work plan for the Committee.	Audit Committee Members	Draft work plan for 2021/22

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