

AUDIT COMMITTEE

Tuesday, 21 March 2017 at 7.00 p.m.

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

This meeting is open to the public to attend.

Members:

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

Councillor Sabina Akhtar, Councillor Ohid Ahmed, Councillor Craig Aston and
Councillor Rabina Khan (1 vacancy)

Deputies:

Councillor Harun Miah, Councillor Helal Uddin, Councillor Rajib Ahmed, Councillor
Marc Francis, Councillor Andrew Wood and Councillor Peter Golds

[The quorum for this body is 3 Members]

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APOLOGIES FOR ABSENCE

- 1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST** **1 - 4**

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

- 2. MINUTES OF THE PREVIOUS MEETING(S)** **5 - 14**

To confirm the minutes of the Audit Committee held on 31st January 2017.

- 3. KPMG ITEMS FOR CONSIDERATION**
 - 3.1** KPMG Annual Report on Grants and Returns Work 2015-16 15 - 18

- 4. TOWER HAMLETS ITEMS FOR CONSIDERATION**
 - 4.1** 4.1 - Quarterly Internal Audit Assurance Report 19 - 70
 - 4.2** 4.2 - Annual Internal Audit Plan 2017-18 71 - 128
 - 4.3** 4.3 - Tenancy Fraud Update 129 - 136
 - 4.4** 4.4 - Quarterly Treasury Management Update for Quarter Ended December 2016 137 - 158

- 5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

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Agenda Item 1

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

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

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

Interests and Disclosable Pecuniary Interests (DPIs)

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

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

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

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

Effect of a Disclosable Pecuniary Interest on participation at meetings

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

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

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

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

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

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

Further advice

For further advice please contact:-

- Graham White, Acting Corporate Director, Governance and Interim Monitoring Officer - 0207 364 4800

APPENDIX A: Definition of a Disclosable Pecuniary Interest

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

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

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.15 P.M. ON TUESDAY, 31 JANUARY 2017

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

Members Present:

Councillor Candida Ronald (Chair)

Councillor Denise Jones

(Mayoral Adviser for Service Quality
and Performance)

Other Councillors Present:

Councillor Andrew Wood

(Substitute for Councillor Craig Aston)

Officers Present:

Minesh Jani

Brian Snary

Stuart Young

Roy Ormsby

Kevin Miles

Mark Baigent

– Divisional Director, Risk Management

– Financial Accountant

– Human Resources

– Service Head Public Realm

– Chief Accountant

– Interim Head of Strategy
Regeneration Sustainability &
Housing Options

– Interim Strategic Risk Advisor

– Rents Team

– Development Manager, Markets

Anthony Sotande-Peters

Stuart Coogan

Roy Wayre

Others in Attendance:

Antony Smith

Andrew Sayers

– KPMG

– KPMG

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Andrew Cregan, Craig Aston and Sabina Akhtar.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of interest were declared.

3. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the previous meeting held on 8 November 2016 were approved as a correct record of proceedings.

4. KPMG ITEMS FOR CONSIDERATION

4.1 KPMG Audit Plan 2016/17

The Committee received the KPMG's Audit Plan for 2016/17 presented by KPMG representatives Antony Smith and Andrew Sayers.

Andrew Sayers informed the Committee that there were no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with and highlighted the following from the report:

Materiality

- Materiality for planning purposes has set at £15m for the Authority and £20m for the Pension Fund; and
- Uncorrected omissions or misstatements are reported other than those which as "clearly trivial" to those charged with governance and this has been set at £750,000 for the Authority and £1m for the Pension Fund.

Significant Risks

- Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as –
 - Property, Plant and Equipment
 - Valuation of Pension Fund Assets
 - Pension Liability – Triennial Valuation
 - Declarations of Interest – actions that are ongoing
 - Section 106/Community Infrastructure Levy (CIL) agreements
 - Grants – up to date

Other Areas of Audit Focus

- Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as –
 - Payroll
 - Youth Services
 - Calculation of Benefits

Value for Money Arrangements to work

- Initial risk assessment regarding the arrangements to secure value for money have identified the following VFM significant risk and areas of audit focus –
 - Implementation of Best Value Action Plans
 - Medium Term Financial Plan

- Progress in completing the “clear up” project

The Chair, Councillor Candida Ronald enquired if the report would need updating given that the Commissioners have returned the handling of the Grants back to the Cabinet.

Andrew Sayers informed the Committee that reporting would be up until the Commissioners left or handed back the Grants to the Cabinet and up to when the Commissioners were involved and when payments were made.

Councillor Andrew Wood enquired about Section 106 monies in relation to the significant risks.

Andrew Sayers informed the Committee that the risk involves the money being reclaimed.

The Chair, Councillor Candida Ronald enquired about the Youth Services in relation to the other areas of audit focus.

Andrew Sayers reported that there were a number of shortcomings by the Youth Service, but improvements have since been made and a value for money exercise has been embedded and some sample testing is already underway.

The Committee agreed to:

1. Thank Andrew Sayers and Antony Smith for attending and presenting the KPMG Audit Plan for 2016/17; and
2. Note KPMG’s Audit Plan for 2016/17 and the areas of review.

5. TOWER HAMLETS ITEMS FOR CONSIDERATION

5.1 Progress of actions arising from KPMG ISA 260 Report

The Committee received the Progress of Actions arising from KPMG’s 2015/16 ISA260 presented by Brian Snary, Financial Accountant.

Brian Snary informed the Committee that the report provided an update to the Committee regarding progress made to date on the issues raised by KPMG in the draft ISA260 and outlined the following main areas:

- Significant audit terms – items identified in the External Audit Plan 2015/16 that pose a significant risk in the Financial Statements
 - Property Plant and Equipment
 - Grant Payments
 - Declarations of Interests
 - Fraud Risk of Revenue Recognition
 - Management Override of Controls

- Pensions Assets – Liabilities
- Payroll
- Income from Property Leases
- Youth Services
- Prior year recommendations – these items were included in the ISA260 for 2014/15 but have not yet been fully implemented;
- The accounts are compliant with the requirements of International Financial Reporting Standards (IFRS);
- The auditors had substantially completed the review and subject to a few areas requiring further consideration, KPMG are in a position to issue a draft ISA260 detailing the findings; and
- Areas where audit review work is continuing relates to –
 - Grant Payments
 - Declarations of Interest
 - Income from Property Leases.

Members enquired about the following –

- Clarification was sought in relation to what was meant by “the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources”;
- What were the improvements reported relating to the Value for Money conclusions?
- A member of staff being paid twice, would this be flagged up?
- Has the authority received its 2014/15 certification yet?
- How are the objections resolved in relation to the certification?

Andrew Sayers informed the Committee that –

- The “Authority had not made proper arrangements” has now been looked at and assessed and there is a real Value for Money awareness and the Best Value Action Plan has been produced, however, it is still early in the year so not much progress has been made, but it is continued to be monitored.
- The improvements would be reported in the 2016/17 Action Plan and consideration would be given to the fact that the Commissioners have handed back Grants to the Cabinet and the progress is currently being tracked.
- A member of staff being paid twice would be flagged, as controls are in place and the risk would be assessed, however some things can still slip through, but random tests are conducted to ensure this does not happen regularly.
- KPMG are waiting on the final assessments for the certification for 2014/15, as there were some objections that had been lodged.
- Objections are usually resolved by requesting the information from the Authority and waiting on the information to be submitted to be assessed based upon the objection.

The Committee agreed to note the progress of the items detailed in the ISA260 report.

5.2 Quarterly Internal Audit Assurance Report

The Committee received the Quarterly Internal Audit Assurance Report presented by Minesh Jani, Divisional Director, Risk Management.

Minesh Jani informed the Committee that the report summarised the work of Internal Audit for the period September 2016 to November 2016 and set out the assurance rating of each audit finalised in the period and provided an overall assurance rating.

Minesh Jani reported to the Committee the following:

- Of the 15 finalised audits which focused on high risk or high value areas –
 - 1 was assigned full assurance
 - 9 were assigned Substantial Assurance
 - 4 were assigned Limited assurance and
 - 1 was not applicable
- A further 13 audits were of moderate significance and of these 11 were assigned Substantial Assurance and 2 were assigned Limited Assurance
- Overall 75% of audits resulted in an adequate assurance, the remaining 21% of audits have an inadequate assurance rating and 4% Not Applicable
- Three performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the monitoring process the actual and targets for each indicator for the period is as follows:

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

- Lettings Systems Audit – an update was provided including information relating to 19,120 people were on the housing waiting list and for 2015/16, approximately 2,091 lettings had been made, with 2 cases being tested by Audit, with management confirming that these lettings did not meet the required standards and procedures as the applicants' eligibility and assessment could be open to challenge.
- Establishment Control – an update was provided including information relating to a review of the establishment list obtained for March 2016 confirmed the concerns raised over the usefulness and completeness

of the data including the fact that there are 102 posts that are detailed as being vacant for four or more years but there are no further details as to why they have been long-term vacant.

- Risk Management Follow Up – an update was provided including information relating to two detailed medium priority recommendations which had been agreed at the conclusion of the original audit, none had been fully implemented.
- Market Vouchers – an update was provided including information relating to the market fees and charges generated in 2014/15 and 2015/16.

Members enquired about the following:

- How was progress monitored across all audits being conducted;
- Are the systems in place robust enough in Tower Hamlets;
- When properties are offered to tenants are checks completed in the event of fraud etc;
- Is Tower Hamlet joined up with Tower Hamlet Homes in terms of document checking and fraud;
- Does TH always get it right, in terms of “right person, right home” or can it be “wrong person, right home”;
- Does the market management meet with the market traders; and
- Are market management looking at new sites for new markets across the Borough.

The Committee was informed that –

- the progress of the audits being conducted was monitored by risk assessments and issues being raised and then drafted within reports.
- Social Housing is a commodity within the Borough and as such proper checks are in place and usually conducted to ensure housing is allocated to the right people.
- There are clear policies and procedures in place for staff to conduct the checks, but the system may not be robust enough.
- A procedure guide for staff was being produced together with checklists and ad hoc checks by managers to ensure the procedures were being followed.
- If there were consistent failures by staff then formal action would take place.
- Information is shared between TH and Tower Hamlet’s Homes and checks are conducting on tenancy agreements and subletting issues.
- Information is also referred to the Fraud Team and use is made of the “whistle-blowing” facility by staff.
- In relation to the “Risk Management follow up update” that a Risk Management Review was currently underway.
- A new Market Manager has been appointed since September 2016 and there have been changes made to the enforcement and processes which are now monitored more closely.
- Changes have been made to the back office and frontline staff and the way things are done.

- Regular meetings are held with the team and market traders and there is now a different working environment and a zeal to improve standards.
- Market staff are looking at improving current market sites by raising standards and ensuring the markets maintain a high quality of food and other products.
- Once this is complete and maintained then work will begin on establishing more markets in new areas.

The Committee agreed to:

1. Note the contents of the report and to take account of the assurance opinion assigned to the systems reviewed during the period.
2. Receive an update relating to the Lettings Systems Audit within 6 months.
3. Receive a report relating to the Establishment Control at the Audit Committee meeting in June 2017.
4. Defer the “Troubled Families” and “Management and Control of No Recourse to Public Funds” Updates to the next meeting of the Audit Committee on 21st March 2017.

5.3 Review of Accounting Policies

The Committee considered the Draft Accounting Policies 2016/17 and 2017/18 presented by Brian Snary, Financial Accountant.

Brian Snary highlighted the following, that:

- Appendix A includes the draft accounting policies for 2016/17 and also provides a summary of the main content of the policies and highlights any recent changes.
- The requirement to include Accounting Policies is taken from the Cipfa Code of Practice for Local Authority Accounting 2016/17.
- IAS 8 also requires entities to disclose the expected impact of new standards that have been issued but not yet adopted.
- The Accounting Policies(including the new requirement for the Highways Network Asset Policy) will also be adopted for 2017/18 subject to any amendments arising from the ongoing consultation process.

The Chair, Councillor Candida Ronald enquired if there were any changes.

Brian Snary informed the Committee that the changes were reflected in section 5, page 141 of the report and were mainly around changes to the Transport Infrastructure Asset.

The Committee agreed to approve the Accounting Policies for 2016/17 and 2017/18.

5.4 Treasury Management Strategy Statement 2017/18

The Committee considered the Treasury Management Strategy Statement for 2017/18 presented by Kevin Miles, Chief Accountant.

Kevin Miles highlighted the following, that:

- The council is required by legislation and guidance to produce 3 strategy statements, they are –
 - A policy statement on the basis of which provision is to be made in the revenue accounts for the repayments of borrowing – Minimum Revenue Provision (MRP) Policy Statement;
 - A Treasury Management Strategy Statement which sets out the Council's proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities; and
 - An annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- The report also dealt with the settling of Prudential Indicators for 2017/18 which ensures that the Council's capital investment decisions remain affordable, sustainable and prudent.

Councillor Denise Jones enquired about who advises the Council on investment.

Kevin Miles informed the Committee that a representative from Capita usually advises on investments.

The Committee agreed to:

1. Note the report and approve for submission to Full Council to adopt the following policies and strategies -
 - a. The Minimum Revenue Provision Policy Statement set out in Section 2 at Annex A attached to the report;
 - b. The Treasury Management Strategy Statement set out in Sections 5 & 6 at Annex A attached to the report; and
 - c. The Annual Investment Strategy set out in Section 7 at Annex A attached to the report, which officers involved in treasury management, must then follow.
2. Approve the Prudential and Treasury Management indicators as set out in Appendix 1 of Annex A attached to the report.
3. Delegate authority to the Corporate Director, Resources to use alternative forms of investment, should the appropriate opportunity arise to use them and should it be prudent and of advantage to the Council to do so. This delegated authority is subject to prior

consultation with the Lead Member for Corporate Finance on any possible use of these instruments.

4. Organise training for the Audit Committee members in the new financial year relating to “Investments”.

5.5 Quarter 3 Risk Management update and Corporate Risk Register 2016/17

The Committee considered the Quarter 3 Risk Management Update and the Corporate Risk Register 2016/17 presented by Minesh Jani, Divisional Director, Risk Management.

Minesh Jani highlighted the following, that:

- The purpose of the report was to update the Committee of the Council’s corporate risks.
- A total of 12 corporate risks had been identified across the directorates.
- The Council continues to face significant challenges given the current funding environment.
- There are currently 367 active risks on the Council’s Risk Management Information Systems of which 105 are overdue for review.
- There are also 332 active control measures on JCAD of which 141 are also overdue for review.

Andrew Wood informed the Committee that there was an article that he had come across entitled “Centre for Cities – Think Tank” which identified Tax Income by Borough.

The Chair, Councillor Candida Ronald enquired if the Committee in the future could go “deep dive” on a chosen risk.

Minesh Jani thanked Andrew Wood for the information and informed the Committee that he would explore the article and see its merits. He also stated that it would be a good idea to look at some risks that had been discussed previously e.g. Business Rates and Social Services.

The Committee agreed to:

1. Note the contents of the report.
2. Look at in some depth the following risks at a future meeting “SEN” and “Business Rates”.

5.6 Bribery Risk Assessment

The Committee considered the Bribery Risk Assessment for 2016/17 presented by Minesh Jani, Divisional Director, Risk Management.

Minesh Jani highlighted the following:

- The report presents an assessment of bribery risks carried out by the risk management team and the heightened risk transactions identifying the sorts of transactions by which a bribe might be effected and activities and/or relationships which might give rise to risk.
- The Bribery Act 2010 came fully into force on 1 July 2011 and provides a legal framework to combat bribery in the public and private sectors. It creates 4 new offences –
 - Bribing another person
 - Being bribed
 - Bribing a foreign public official
 - Failing to prevent bribery
- The Committee was given an update relating to the high risks within each of the directorates.
- The Committee was also informed of the possible bribery risks highlighted to CMT –
 - Property disposals
 - Housing tenancies
 - Contract award and contract monitoring
 - Sponsorship
 - Grants decisions
 - Regulatory and enforcement activity

The Committee agreed to note the actions in the report.

5.7 Forward Plan 2016/17

The Committee considered the Audit Committee Forward Plan 2016/17 presented by Minesh Jani, Divisional Director, Risk Management.

The Committee agreed to note the Forward Plan 2016/17.

6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no other business to be considered.

The meeting ended at 9.15 p.m.

Chair, Councillor Candida Ronald
Audit Committee

Non-Executive Report of the: Audit Committee 21 st March 2017	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	Classification: [Unrestricted]
2015-16 KPMG Annual Report on Grants and Returns Work	

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

Summary

This report presents KPMG’s Annual Report on grants and returns for 2015-16. KPMG are appointed by the Public Sector Audit Appointment (PSAA) to audit the Council’s large grant claims and returns.

They have reviewed the 2015-16 Housing Benefit Subsidy claim, the pooling of housing capital receipts and the teachers pensions return. Though a couple of minor matters were identified with the claims, no adjustments were made to the amounts of Housing Benefit Subsidy due to the Council or the amount paid regarding the share of right to buy receipts payable to the Government or teacher’s pension contributions. Their report is enclosed with the report.

Recommendations:

The Audit Committee is recommended to:

1. Note the auditor’s Annual report on grants and returns 2015-16.

1. REASONS FOR THE DECISIONS

- 1.1 As part of monitoring the financial management of the Council, the Committee is asked to note the findings of the external auditor as part of their review of the Council's significant claims.

2. ALTERNATIVE OPTIONS

- 2.1 This is a report for noting which the external auditor has asked to be brought to the Committee's attention; no alternative options have been considered.

3. DETAILS OF REPORT

- 3.1 This report details the findings made by the council's external auditors relating to the claims and grants identified above. Overall, the issues identified by the auditors were minor in nature and did not require change to the subsidy claimed or payments made.

4. Details of Claims and Returns

- 4.1 The Housing Benefit Subsidy Claim – this is the validation of the claim the authority submits to recover Housing Benefit paid to residents from central government. There were some issues identified as part of audit testing, however this did not lead to changes in the subsidy receivable from the government. Recent government statistics show that 77% of subsidy claims are qualified.
- 4.2 During 2015-16 Tower Hamlets had over 35,000 live claims of which 6,810 were new claims processed. Over 143,000 in year changes to individual's data were made following changes in personal circumstances. Over £280m of benefits were paid in 2015-16.
- 4.3 The Auditors checked 60 claims and found one non-HRA claim where £58.45 was over-claimed. An additional 40 cases were checked by the authority and no further errors were found. The £58.45 error was extrapolated by the Council's auditors and due to this the subsidy claim was revised by £2,587. However, the overall amount of the subsidy claimed remained unaltered.
- 4.4 Benefit officers conduct accuracy checks on income data provided by claimants as part of processing claims. However where an individual's income fluctuates from week to week, there is potential for incorrect assessments to be made. Also small transposition errors were made where earnings information on an income data management system was transferred to the benefits system. These non-material errors with HRA rebates and rent allowances did not result in the subsidy claim being amended.
- 4.5 Pooling of Housing Capital Receipts – Where Council dwellings are sold to tenants under the Right to Buy Scheme, a share of the capital receipt has to

be paid to the Government. A pooling of Housing Capital Receipts form is completed to show how the receipt is to be shared between the Council and the Government. The audit review confirms that the calculations have been made correctly. Other than a very minor issue where a value for quarterly attributable debt in quarter 3 was understated by £2,700, which lead to an increase in the required amount of new build expenditure by £9,000, there were no amendments to the pooling claim.

4.6 Teachers pension return – this summarises the pension contributions collected and paid to the teachers’ pension fund. This totalled £27.7m for 2015-16. The auditors check that the Council systems contain accurate records. The auditors confirmed that the Council’s records were correct.

4.7 The audit fees for these pieces of work totalling £27,077 are explained in the report – the fee is lower than the £36,950 charged for 2014-15.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The comments of the Corporate Director of Resources have been incorporated into the report.

5. LEGAL COMMENTS

5.1 The Council’s external auditors are appointed under the Public Sector Audit Appointment arrangements to audit material grants and claims.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 There are no specific one Tower Hamlets considerations from the findings of the audit report.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The financial management and maintenance of financial records by officers should ensure that the Council optimises the use of its financial resources and maximises subsidy income due.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The audit review of grants and returns confirms that the Council has robust systems of control in operation and adequate records.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no any Crime and Disorder Reduction implications arising from this report.
-

Linked Reports, Appendices and Background Documents

Linked Report

- [NONE]

Appendices

- KPMG Annual Report on Grants and Returns Work 2015-16

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:

- Kevin Miles, Chief Accountant (ext. 6791)

<p><i>Non-Executive Report of the:</i> Audit Committee <i>21st March 2017</i></p>	 <p>TOWER HAMLETS</p>
<p>Report of: <i>Zena Cooke - Corporate Director - Resources</i></p>	<p>Classification: <i>Unrestricted</i></p>
<p>Quarterly Assurance Report</p>	

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

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the three month period covering December 2016 to February 2017.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

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

3. Background

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

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

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





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

4. Overall Audit Opinion

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

4.2. **Direction of Travel**

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

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

5. **Overview of finalised audits**

5.1. Since the last Assurance Report that was presented to the Audit Committee in January 2017, twenty three final reports have been issued. The findings of these audits are presented as follows:

- Chart 1 below summarises the assurance rating assigned by the level of significance of each report.
- Appendix 1 provides a list of the audits organised by assurance rating and significance.
- Appendix 2 provides a brief summary of each audit.

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

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

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

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

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	N/A	Total
Significance	Extensive	-	12	3	-	15
	Moderate	1	5	2	-	8
	Low	-	-	-	-	-
Total Numbers		<i>1</i>	<i>17</i>	<i>5</i>	-	<i>23</i>
Total %		<i>4%</i>	<i>74%</i>	<i>22%</i>	-	<i>100%</i>

- 5.4. From the table above it can be seen that of the fifteen finalised audits which focused on high risk or high value areas; twelve were assigned Substantial Assurance and three were assigned Limited assurance. A further eight audits were of moderate significance and of these one was Full assurance, five were assigned Substantial Assurance and two were assigned Limited Assurance.
- 5.5. Overall, 78% of audits resulted in an adequate assurance (substantial or full). The remaining 22% of audits have an inadequate assurance rating (limited or nil).

6. Performance Indicators

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

Performance measure	Target	Actual
Percentage of Audit Plan completed up February 2017	80%	78%
Percentage of Priority 1 Audit Recommendations implemented up to January 2017 by Auditees at six monthly follow up audit stage	100%	50% 2 out of 4
Percentage of Priority 2 Audit Recommendations implemented up to January 2017 by Auditees at six monthly follow up audit stage	95%	57% 4 out of 7

- 6.2. The percentage of priority 1 recommendations fully implemented at the follow up stage was 50%, whereas the percentage of priority 2 recommendations was 57%. Details of priority 1 and priority 2 recommendations not implemented are set out in Appendix 3. Details of recommendations not implemented for each Follow Up audit are sent to the relevant Service Head and the Corporate Director for any appropriate action they would like to take.

7. Comments of the Chief Finance Officers

- 7.1. This is a quarterly noting report covering the period December 2016 to February 2017 highlighting findings arising from the work of the internal audit. There are no specific financial implications arising from the contents of this report.

8. Legal Comments

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

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

9. One Tower Hamlets

- 9.1. There are no specific one Tower Hamlets considerations.
- 9.2. There are no specific Anti-Poverty issues arising from this report

10. Best Value Implications

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

11. Risk Management Implications

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

12. Sustainable Action for a Greener Environment (SAGE)

- 12.1. There are no specific SAGE implications.

13. Crime and Disorder Reduction Implications

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


APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Children's Services	Norman Grove Children's Home
	Extensive	Corporate	Control and Monitoring of Disclosure and Barring Service (DBS) Checks
	Extensive	Communities, Localities and Culture	Management and Control of Parking Permits
	Moderate	Communities, Localities and Culture	Brady Arts Centre and Kobi Nazrul Centre
	Moderate	Children's Services and Adults Services Directorates	Petty Cash Follow-Up
SUBSTANTIAL			
	Extensive	Resources	Housing Benefit and Council Tax Reduction Scheme
	Extensive	Resources	Creditors
	Extensive	Resources	Payroll
	Extensive	Communities, Localities and Culture	Trading Standards Follow-Up
	Extensive	Communities, Localities and Culture	Licence Applications
	Extensive	Tower Hamlets Homes	THH Risk Management
	Extensive	Tower Hamlets Homes	THH Management and Control of Voids
	Extensive	Tower Hamlets Homes	Bancroft TMC Follow-Up
	Extensive	Tower Hamlets Homes	THH Caretaking and Estates Management

Assurance level	Significance	Directorate	Audit title
	Extensive	Development and Renewal	Planning Decisions and Approval
	Extensive	Development and Renewal	Management of London Mayor's Community Infrastructure Levy (CIL) Follow Up Audit
	Extensive	Children's Services	Monitoring of Action Plan from Children's Serious Case Reviews
	Moderate	Children's Services	St Mary and St Michael Catholic Primary School
	Moderate	Children's Services	William Davis Primary School
	Moderate	Children's Services	Phoenix Primary and Secondary School
	Moderate	Children's Services	St Peters (London Docks) CoE Primary School
	Moderate	Children's Services	Arnhem Wharf Primary School
FULL	Extensive	Adults Services	Healthy Start Vitamins Follow-Up

**Summary of Audits Undertaken
Limited Assurance**


APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Norman Grove Children's Home	Feb 2017	<p>The audit reviewed the controls in place at Norman Grove Children's Home which is located in the Bow area of East London. The children's home is provides accommodation for up to six children aged between 13 and 17 years of age. They can be of either gender and are all in the care of the Council under the provisions of the 1989 Children Act.</p> <p>Each child has an individual Care Plan which determines the main objectives for their stay at Norman Grove. Some return to the family network and some remain placed in the children's home until they are ready for independence at 18. Others move on to alternative placements.</p> <p>All children's homes have unannounced inspections by Ofsted twice in a calendar year. Norman Grove had its full inspection in August 2016 and was rated 'Good'. The children's home has a budget of £831,751 for the financial year 2016/17.</p> <p>The main objective of this audit was to provide assurance that systems and controls for the administration and management of the Norman Grove establishment are sound and secure and that Council procedures are complied with. This audit was undertaken in line with the 2016/17 LBTH Internal Audit Plan.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • There is a lack of clarity between the responsibilities expected for the maintenance of the children's home (Corporate Landlord model) and that of the children's home directly. • Although policies, procedures and guidance are documented, staff are unsure of where to locate these documents. • One instance was identified where a DBS check ran out in 2013 but had not been refreshed. Two instances were identified where the DBS forms were not updated with the up-to-date information and two staff had incorrect dates stated on their DBS forms. • Petty cash guidance does not contain sufficiently detailed information (as to what constitutes acceptable/reasonable use) nor does it contain any version control history (i.e. when it was last updated and when it is next due for review/approval). 	Extensive	Limited 

		<ul style="list-style-type: none"> • No Card Policy was provided (to clarify arrangements for the use of the VISA credit card and the debit card). • Invoice numbers were recorded on Agresso but the actual invoices were not able to be provided. • A meal of £247.39 had been purchased for just Norman Grove staff, and not for the children's benefit (from petty cash). Information was not always accurately recorded for the use of the petty cash. • Purchases made via the VISA credit card had not been correctly recorded (as the date of purchases and goods received were identical to the bank statement date in 19/20 cases tested). • A structure chart was not provided for the administration section of the team, to depict expected reporting lines. Roles and responsibilities of staff members were therefore not documented or easy to obtain. • It could not be confirmed that a completed Asset Register was in place at the time of fieldwork and assets were not security marked. <p>All findings and recommendations were agreed with the Group Manager and Service Manager Resources and reported to the Corporate Director Children's Services.</p>		
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Management Comments

The ten recommendations in the report are noted and have been agreed. Recommendations 1,3, 4, 7 and 8 have now been completed and were signed off by the auditor manager. Recommendations 2, 5, 6, 9 and 10 are due to be completed by the end of February 2017.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Disclosure and Barring Service (DBS) Checks	Jan 2017	<p>The objective of this audit was to provide assurance that there were sound systems in place within the Council for controlling, monitoring and managing DBS checks on employees who are required to have this clearance.</p> <p>The Council's policy and guidance for managers of posts requiring DBS disclosure has been publicised on the Intranet. Through E-Bulk system, real time information is available to Human Resources (HR) Advisors for checking every employee requiring DBS and the status of the DBS check. The Human Resources and Workforce Development (HR and WD) Service provides monthly reports to Service Heads setting out the status of DBS checks for each employee that requires one. We highlighted a number of control weaknesses including the following issues:-</p> <ul style="list-style-type: none"> • Our review showed that a comprehensive database of all posts requiring DBS Checks was held within HR Resource Link system. However, a number of inconsistencies were reported, which needed to be addressed when the Establishment List is programmed for a review. • The carrying out of risk assessments when disclosures are made is the responsibility of the line manager. From testing of 23 DBS certificates with disclosures, we identified delays of up to twelve months from the date the DBS Disclosure was received by HR to the date HR notified the line manager to review the employee's DBS Disclosure to determine whether a risk assessment was required. • The processes and controls for undertaking, recording and approving risk assessments by Directorate officers and notifying the results to HR promptly needed to be improved and strengthened to ensure that service users are adequately safeguarded under all circumstances. The quality of risk assessments required improvement and appropriate checks needed to be carried out by HR. <p>All findings and recommendations were agreed with the Interim HR, OD and Transformation Manager and final report was issued to all Corporate Directors.</p>	Extensive	Limited 

Management Comments

The HR Service maintains a comprehensive database of all posts that require DBS checks including the level and type of check. This database is held within HR Resourcelink (the HR and Payroll System) and details DBS information for every employee whose post has been deemed to require a DBS check by the relevant Divisional Director. The HR Service notifies the employee when their three-yearly DBS check is required in accordance with Council policy and records the results of the DBS check on receipt within Resourcelink.

Monthly management information reports are produced by the HR Service for Divisional Directors detailing those DBS checks in date, DBS applications undertaken, DBS checks approaching expiry (within 4 months) and those where employees have not arranged to visit the HR Service, on notification, for their ID verification and for the eBulk process to be progressed to obtain an up-to-date DBS check. If an employee who is required to renew their DBS check does not engage in the process they may be subject to disciplinary action which could include suspension from work.

DBS certificates are provided directly by the DBS to the applicant with the council receiving reports from the DBS notifying as to when a DBS check includes disclosure information which needs reviewing by the Line Manager. Where there is notification that there is a disclosure, the HR Service emails the line manager and the HR Business Partner to advise them that a risk assessment must be carried out.

A new risk assessment process has been implemented whereby dates of receipt of a disclosure are logged on Resourcelink to enable the tracking of progress for a risk assessment to be completed and relevant documentation submitted for uploading onto the system. The risk assessment forms will be maintained centrally and securely by the HR Advisers Team Leader who will ensure that all risk assessments are completed within a four week period of notification of disclosure. If the completed risk assessment is not submitted to the HR Advisers Team Leader within the four week period, the HR Advisers Team Leader will escalate to the relevant Divisional Director for notification. If a risk assessment is not completed, the Corporate Director/Divisional Director will be notified of the non-compliance by the manager which may lead to disciplinary action.

Only in exceptional circumstances can an individual commence work/or continue in their role without the full results of the DBS Disclosure being known and this can only be authorised by the Divisional Director, in consultation with an HR Business Partner. This must only be in situations where there is an urgent need to maintain service delivery and all reasonable steps have been taken to protect the safety of service users. Reasonable steps to protect service users include;

- not allowing unsupervised access to children or vulnerable adults,
- allowing the applicant to start work in an alternative post or shadowing other employees.

A waiver form, available on the intranet must be completed in ALL situations where an employee is allowed to commence/continue to work

without knowledge of the outcome of a DBS check. This must be reviewed by the Line Manager at least monthly until the outcome of the check is received.

Completed Risk Assessment Forms are held centrally and securely within the HR Service with access to the information being strictly restricted, controlled and limited to those who are entitled to see the information as part of their duties.

An establishment validation exercise is currently being undertaken in which managers will confirm whether a DBS check is required for every post in their team. If a DBS check is required managers will confirm the level of check. On completion of the review, the HR Service will verify the information on DBS eligibility submitted by directorates so that each post is consistent in terms of the same DBS check level.

DBS policy and guidance is available for managers on the council's Intranet. The existing guidance has been reviewed to ensure it is in line with the current DBS Code of Practice and takes into account the recommendations made in the Ian Mikardo report as well as including the eBulk (electronic) process. The DBS Risk assessment form has been amended and incorporates a risk assessment methodology.

The guidance for managers on DBS checks has been strengthened to provide advice to managers on making decisions using disclosure information. Additionally, a risk assessment process for dealing with disclosures has been produced which incorporates guidance on the following areas:


- Receipt of an unsatisfactory disclosure;
- Conducting a risk assessment meeting;
- Factors for management consideration when making a decision
- Risk assessment decision-making
- Roles and responsibilities of managers and HR within the risk assessment process

Two new DBS Risk Assessment forms have also been produced to accompany the guidance within which the determining manager will:

- ✓ Register details recorded on a DBS certificate if a risk assessment has previously been completed and is held on file;
- ✓ Record details if a new disclosure has been recorded on a DBS certificate for which there is no information held on file

This guidance will be published once the contents have been considered by the Corporate Safeguarding Board on the 16th March 2017.


Guidance has also been produced which sets out the roles and responsibilities within the HR Service on receipt of a disclosure. This guidance includes the recording of receipt of a disclosure, monitoring the progress of decision-making by managers and the recording of the final outcome on receipt of a completed risk assessment form which will be retained securely and confidentially by the HR Advisers Team.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Parking Permits	Jan 2017	<p>The main objective of this audit was to provide assurance to management that the systems for controlling, monitoring and issuing of all types of parking permits were sound, secure and adequate.</p> <p>From our testing of a sample of twenty parking permits for residents, business and contractors permits, we highlighted the following issues which weaken the control environment in this area and increases fraud risk.</p> <ul style="list-style-type: none"> • Our review showed that a clear policy framework and scheme of delegation for officers setting out authority parameters within which to administer and issue parking permits was not in place. Although required by procedures, the management checks and audits carried out on parking applications were not effective. • Our review of the terms and conditions for parking permits showed that there was no proper structure and that these were lengthy and loaded to capture a number of different situations emerging over a period of time rather than meeting specific business objectives. In addition, the eligibility criteria and the documentary evidence required to support permit applications were not stringent enough to manage the risk of fraud, error and abuse. Testing identified permits were issued to ineligible applicants. • There was no verification of online permit renewals and reproofing of documents for longstanding permits, which increased the risk of permits issued to ineligible applicants. • Testing showed that necessary checks were not undertaken to ensure the validity of the application and the supporting documents for multi-parking permits. <p>All findings and recommendations were agreed with the Service Head, Public Realm and final report was issued to the Interim Director of CLC and Chief Executive.</p>	Extensive	Limited 

Management Comments

There is currently a review taking place of all policies with parking, and they will be presented to the Mayor for discussion over the next few months. There is also a review of the structure within parking, which will take account of the comments made in the report.

All the findings will be taken into account as part of the reviews, but any processes that we feel need to be brought forward will be prioritised to ensure robust systems are in place

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Brady Arts Centre and Kobi Nazrul Centre	Jan 2017	<p>This audit was a regularity visit to the Brady Arts Centre and the Kobi Nazrul Centre, in order to provide assurance that the Council's procedures for income collection and banking, security, ordering of goods and services, staffing control, inventory control and health and safety are being complied with. It was noted that neither centre utilises a petty cash facility. It was also noted that the core functions of the service are operated from the Brady Arts Centre whereas the Kobi Nazrul Centre is not open all the time (no resident present). No money is stored at the Kobi Nazrul Centre. This audit was undertaken as part of the 2016/17 agreed Audit Plan.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Upon testing a sample of six staff timesheets from the Brady Arts Centre and Youth Arts Team (operating from the Brady Arts Centre), there were discrepancies with annual leave records on timesheets vis-a-vis the HR Self-Service (HRSS) system. Namely: <ul style="list-style-type: none"> • In two cases staff had recorded instances of annual leave on the HRSS portal but did not record the same on the corresponding timesheets; and • In three cases staff had recorded instances of annual leave on the timesheets, but did not record the same on the HRSS portal. • Return to Work (RTW) interviews are held by the manager upon staff returning to work from a period of sickness absence. It was found that RTW interview forms were not maintained locally and there was no audit trail available on the HRSS system to confirm the dates of the RTW interviews advised to have been held. • Upon testing 19 purchase card transactions it was identified that in six instances the purchases were not physically identifiable or verifiable whilst on site. Of these, five were not identifiable due to lack of detail and description confirming the exact reason for purchase. In one instance the item could not be located on site (awning for garden for £16.99 on 	Moderate	Limited 

		<p>01/06/2016).</p> <ul style="list-style-type: none"> On review of the visitor record book maintained at the Brady Arts Centre, it was found that the records were destroyed at the end of every week. Further, it was observed that, due to the layout of the building and the entrance, it was possible for a visitor to walk straight past the reception without having to sign-in the visitor book. There were no access restrictions to the non-public offices of the building, where confidential data is stored at the Brady Arts Centre. From our review of the Resource Bank Inventory Register it was found that this register was incomplete in so far that it did not note details of serial number of several items on the third page and did not record the location against each item. Upon physical verification of a sample of 15 inventory items, seven issues were identified, relating to serial numbers, location, disposal records, and condition of the inventory. Further, there was no evidence of annual stock checks being carried out by a responsible officer. <p>All findings and recommendations were agreed with the Brady Arts Centre Manager and Head of Arts, Parks and Events and reported to the Service Head Culture, Learning and Leisure, Communities Localities & Culture and Interim Corporate Director of CLC (Chief Executive).</p> <p>A.</p>		
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Management Comments


Summary of changes implemented as per the order of issues raised above.

- Time sheets. Flexi sheets that staff fill in have been adjusted to allow for recording annual leave. Managers will carry out monthly checks and record findings and action taken.
- Sickness management. Return to work interviews now completed on return to work as soon as practicably possible after any period of sickness. In addition to filling in online forms hard copies signed off by both member of staff and line manager and will be retained in admin office.
- Purchase cards. Expenditure spreadsheet recording transactions maintained by all managers detailing the items purchased, the date of purchase with the reason for purchase. This is updated every time a purchase is made. At the end of the month, this spreadsheet is

cross-verified with the transactions and signed off by Head of Service.

- Visitor records. All visitors now required to sign in. Used sheets are retained in a folder for audit purposes.
- Access to building. FM has now agreed to proposed security measures to include secure key card for opening all doors leading to the non-public areas. Works to commence imminently.
- Resource bank. Inventory is being updated. FM will arrange for disposal of items no longer required. An independent check to be conducted in conjunction with annual inventory update.
- **Additional action.** All staff to be checked with regard to their understanding of personnel systems and usage of online services.

Monitoring. In order to ensure that these actions are embedded into the services day to day operations the Head of Service will carry out monthly checks on flexi sheets, sickness management, purchase cards and resource bank. Checks on visitor records will be random, i.e. not by arrangement, noting whether all visitors are signing in. Head of Service will also request updates on required works through FM. This to cover a period of six months and thereafter check will be twice a year.


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Petty Cash Follow-Up	Jan 2017	<p>Petty cash is a small amount of discretionary funds in the form of cash used for small items of expenditure where it is not sensible to make a disbursement by cheque, because of the inconvenience and costs of writing, signing, and then cashing the cheque. There are a total of 23 imprest accounts currently in use within the Children's and Adult Services directorates (Children's end of year 2016 total imprest balance at £25,268.39 and Adults end of year 2016 total imprest balance at £10,456.27).</p> <p>A full systems audit on Petty Cash was finalised in October 2015. This audit was assigned Limited assurance. This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented.</p> <p>Our follow up review identified that the one high priority recommendation made in the original audit report had not been implemented. We have therefore, made one further recommendation to improve the control framework, as follows:</p> <ul style="list-style-type: none"> • It is recommended that a training programme is developed covering all aspects of management of the petty cash accounts. <p>Once the training programme has been developed, all remaining petty cash account holders should be required to attend a training course and should also receive annual refresher training.</p> <p>In addition, management should ensure that a log is prepared consisting of all differences as result of the spot checking procedures still to be enforced. These should be followed up on a monthly basis to ensure they can be appropriately actioned and resolved in a timely manner.</p> <p>The Compliance Team should ensure that spot checks take place on a monthly basis, where a sample of AP3 forms should be selected from both the Children's and Adults directorates and appropriately reconciled to confirm accuracy and completeness. Once undertaken, this should be recorded and any non-compliance escalated as required. All spot checks should be</p>	Moderate	Limited 


		<p>appropriately dated by the responsible officer and the Petty Cash Account Holders List should be updated to reflect any changes that may now be relevant.</p> <p>All findings and recommendations were agreed with the Operational Accountancy Manager, Chief Accountant and Financial Compliance Manager, and reported to the Service Heads (Children's and Adults Resources), the Corporate Director of Resources, the Corporate Director of Children's Services, and the Corporate Director of Adult Services.</p>		
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Management Comments

It is agreed that all requests should be implemented, however the NatWest accounts are still in the process of being created and debit cards being issued. Once all accounts are fully operational by end of June 2017, then training and spot-checks will take place on a regular basis. If it becomes apparent the petty cash account is not being used for the purposes intended or if timely reconciliations are not completed, then the account will be closed.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Benefit and Council Tax Reduction Scheme	Feb 2017	<p>The Council operates a centralised benefit claims processing service and a dedicated benefits call centre both based at the Town Hall. Areas of responsibility include the processing of claims for Housing Benefits and the Council Tax Reduction Scheme, the correct award or rejection of claims received, and the accurate payment of the amounts awarded.</p> <p>In addition, the function is responsible for identifying where the eligibility of claimants has lapsed, and for the recovery of overpaid amounts.</p> <p>As at January 2016, there were 35,320 claimants and 4,569 of those were new claimants.</p> <p>The audit was designed to provide assurance to management, as to whether the systems of control around the Housing and Council Tax Benefits system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures.</p> <p>No recommendations have been made. However, the quality of the image on the photographic ID was poor on 14 of the 20 cases tested. We were informed that the Benefit Service does not have any face to face interaction with the customer, and there is no requirement for customers to provide photographic ID, so the usefulness of photographic ID and the quality of the image has no bearing on the verification process. It is noted that the Council is exploring the feasibility of a technical solution which will verify the authenticity of documents in order to minimise the risk of fraud and error.</p> <p>All findings were agreed with the Benefits Service Manager and Benefits Subsidy/Overpayments and ICT Manager and reported to the Corporate Director of Resources.</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors	Jan 2017	<p>This audit was undertaken as part of the 2016/17 agreed internal audit plan.</p> <p>The Creditors function is concerned with processing of invoices received by the Council for payment, including confirming that these have been appropriately ordered, goods and services received and certified, prior to making prompt payment.</p> <p>The Creditors system is managed using the Council's financial ledger system, Agresso Business World (ABW), which was introduced from the beginning of the 2013/14 financial year. This records purchase orders, invoices, receipting of goods and services, and payments, and uses workflows to manage requests for approvals. There have been over £27.7m worth of invoices paid by the Council since April 2016. In addition, there have been over £461.5m in 188 CHAPS payments made in the same period.</p> <p>The Council also uses an electronic procurement system, Requisition to Pay (R2P), which enables suppliers to set up and maintain online price lists or catalogues for officers to use in procurement to raise purchase orders. R2P also sends e-orders to, and receives e-invoices from suppliers, and allows suppliers to request amendments to be made to the records of their details as held by the Council. Any transactions or changes to standing data made online are then fed through into the workflows of the financial ledger system for approval.</p> <p>The audit was designed to provide assurance to management as to whether the systems of control around the Creditors system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • A sample of 10 credit notes out of a total of 567 outstanding credit notes totalling £819,575.36 was selected and tested to confirm whether these are received in a timely manner and offset/settled at the earliest possibility. 	Extensive	Substantial 


		<p>Issues were found in three out of 10 cases (In one of these cases, the credit note worth £17,444.25 was still outstanding, one of the credit notes worth £4,582.80 was received following a delay of two years and the third credit note worth £45,858.66 faced a delay of two months).</p> <ul style="list-style-type: none"> • It was established through discussions with management that the review of predetermined parameters, such as payments made over a certain threshold in value, first payments made to new suppliers, or high numbers of payments to same supplier within a period is in place, however, we were unable to test this as the record-keeping of any checks performed was only recently implemented. • A total of 10 CHAPS payments was selected and tested to check whether these were processed in an appropriate manner. Issues were found in three out of 10 cases, as the payments were received by the Treasury Team past their original due dates. However, the payments were processed by the Treasury Team the same day. Late payments could possibly result in financial penalties being levied against the Council and potential reputational damage due to deterioration of relationships with suppliers. • ICT was informed of leavers via a leavers form or email notification. However, there was no system in place whereby Payroll was providing any confirmation to the Financial Systems Analyst regarding the termination to help monitor/prevent unauthorised access. • Examination of the records of VAT checks on coding and recording (from April, June and August 2016) confirmed that checks had been performed for each of the three months selected. However, an exception was noted on the basis that the checks undertaken were not signed and dated. • A recommendation was previously raised as part of the Creditors Audit 2015/16 relating to ensuring that another member of the team be trained in how to generate the monthly Key Performance Indicator (KPI) reports that are taken to the Finance Management Team meetings (so that the reports continue to be produced in the absence of the Assistant Accountant). It was informed that a member of staff is yet to be trained in how to generate monthly KPI reports and this is due to resourcing issues being faced. • A daily reconciliation is performed between the R2P and Agresso count by 		
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		<p>the Senior Finance Officer and reviewed by an independent officer in the Payments Team. Any variances are investigated and resolved by the AP Manager. A sample of 20 dates was selected at random and reconciliations performed on these dates were tested. However, a variance of 80 invoices was identified across eight out of 20 cases examined. It was advised that these differences were not investigated as they were considered timing differences. However, a strengthening of control has been recommended.</p> <ul style="list-style-type: none"> • A sample of three months since April 2016 was selected i.e. April, June and August, and it was confirmed that a Key Performance Indicators (KPI) report was in place in each case (detailing the relevant targets for each finance function and the actual variance from each target). Further discussions were held with management where it was advised that these reports had been presented to the Financial Management Team meetings. However, evidence was not provided to verify this control operating as intended. • A sample of 20 payments was randomly selected and tested to confirm whether the Council was in compliance with its policy to process all invoices within 30 days of receipt, providing that the goods have also been receipted. However, the 30 day target was missed in one out of the 20 cases examined (invoice number 111366 - date of invoice 18/02/2016 and payment date 06/04/2016 i.e. more than 30 days). It was advised that this was a suspended item (disputed due to an issue with the purchase order). On 08/03/2016 the suspension was resolved and paid on 06/04/2016. It was informed that this was a procedural delay on the part of the buyer. • Policies and procedure documents were reviewed as part of the audit and it was determined that a version history control was in place. However, this was not updated with the next review date for these documents. <p>All findings and recommendations were agreed with the Financial Systems Manager and reported to the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll	Jan 2017	<p>The Payroll function at the London Borough of Tower Hamlets is responsible for the effective management of payroll processing, including processing starters, leavers, deductions and amendments, and for paying staff promptly and accurately.</p> <p>The Payroll system has an inherently high risk of errors and irregularities and a strong control environment is necessary to manage this level of risk. From 1 April 2016 to September 2016, the authority's payroll department processed the following:</p> <p>383 starters; 1028 leavers; 390 deductions; and 1165 amendments.</p> <p>The estimated payroll expenditure for 2016/17 at the time of the audit, in the period April 2016 to August 2016 was:</p> <p>Gross pay: £115.3 million Net pay: £82.9 million No. of payments: 51,855</p> <p>The average monthly payroll amounts to date are:</p> <p>Gross pay: £23.1 million Net pay: £16.6 million No. of payments – 10,371</p> <p>The audit was designed to provide assurance to management as to whether the systems and controls around the management of Payroll are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p>	Extensive	Substantial ↔


		<ul style="list-style-type: none"> It was identified that in four out of 20 new starters cases tested, that Payroll had not been informed in a timely manner compared to the employee's stated start date. <i>(For non-school staff starters it is expected that starter forms be received within a week of the employee's recorded start date. For school staff starters it is also expected that forms be received within a week, however, some forms may be received in advance of the actual start date, for example teachers may take the role but not start until commencement of a new term).</i> It was identified that in two out of 20 leavers cases tested, that Payroll had not been informed prior to the employee's leaving date. <i>(Employee number 126213 - Leaving date 14 April 16, form received on 24 May 16; and Employee number 134792 - Leaving date 5 July 16, form received on 13 July 16).</i> <i>In case 126213 the leavers form showed the amount of annual leave due and the supporting workings/calculations to demonstrate how this offset any overpayment. However, in case 134792, an overpayment occurred due to the school requesting wages to be recovered as the employee was paid for a period of time when they should have been on unpaid leave (the School did not inform Payroll to suspend pay). There is no ongoing overpayment on this case.</i> It was previously agreed as a result of the audit conducted in 2014/15 and 2015/16 that an electronic workflow process should be implemented, in order to help ensure that Payroll are notified of changes in a timely manner. This process has not yet been implemented. <p>All findings and recommendations were agreed with the Payroll Manager and reported to the Service Head, Human Resources and Workforce Development, and the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Trading Standards Follow-Up	Dec 2016	<p>The role of the Trading Standards team is to help maintain a fair trading environment for businesses and consumers within the London Borough of Tower Hamlets. To do so, the team applies a wide range of trading standards laws, and provides support, advice and guidance to both consumers and traders. The Trading Standards budget including revenue in the financial year 2016/17 is £609,472. The Trading Standards team currently comprises of eight members of staff. Since March 2016, there has been confiscation cases under the Proceeds of Crime Act (POCA) and three cases remain under investigation (from before March 2016).</p> <p>As a local authority, the Council is able to enforce legislation relating to trading standards, in order to prevent rogue traders and businesses from operating in the local community, such as the Consumer Rights Act 2015, Consumer Credit Act 2006, and the Trade Marks Act 1994. These cover a number of areas, including: Age restricted products; Fair trading, including the pricing and descriptions of goods and services, and terms and conditions; Intellectual property and trademarks; Product safety; and Weights and measures.</p> <p>Our follow up review showed that of the two medium priority recommendations made at the conclusion of the original audit, both had been partly implemented.</p> <p>Following our audit work, we have made two low priority recommendation to enhance the control environment within this area. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> • There are no target times for updating the Civica App system after visits are made. • Neither the monthly Pending Complaints Report nor the monthly tasking meeting include specific reference to meeting response times to complaints entered onto the APP database. <p>All findings and recommendations were agreed with the Interim Head of Service, Trading Standards and SC – Commercial Services and Environmental Health and reported to the Communities, Localities and Culture Corporate Director (Interim).</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Licence Applications	Dec 2016	<p>The Licensing Act 2003, The Gambling Act 2005 and The Local Government (Miscellaneous Provisions) Act 1982 require local authorities to publish a licensing policy. The legislation provides a clear focus on the promotion of four statutory objectives which must be addressed when licensing functions are undertaken, these are:</p> <ul style="list-style-type: none"> • The prevention of crime and disorder; • Public safety; • The prevention of public nuisance; and • The protection of children from harm. <p>The two main types of licences issued under the legislation are personal and premises licences. Club premises certificates can also be issued for qualifying clubs carrying out qualifying club activities. The licensing of activities on a temporary basis (TENS - temporary event notices) may be issued for licensable activities involving no more than 499 people & lasting no more than 168 hours (seven days).</p> <p>There are approximately 1,100 Licences currently in place. This audit was undertaken as part of the agreed 2015/16 Audit Plan.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • There were five separate instances from our random sample of 20 licence applications where complete records could not be located to support the granting of the licence. • Outstanding licence fee payments are not dealt with consistently. <p>All findings and recommendations were agreed with the: Head of Environmental Health and Trading Standards and Administration Manager and reported to the Corporate Director Communities, Localities and Culture Directorate.</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Risk Management	Jan 2017	<p>Tower Hamlets Homes (THH) requires there to be an effective risk management function in place in order to effectively identify, assess and control/manage the organisation's risks. It has been advised that, within the last 12 months, there has been a large turnover of staff at senior levels as well as changes to the make-up of the Board. Consequently, this may have impacted upon the risk management arrangements in place. THH maintains risk registers at both an operational and strategic level, both of which are expected to be monitored on a regular basis. Within the past 12 months, THH has also realigned the way in which it uses its JCAD risk management software.</p> <p>The audit was designed to assure management that the systems in place for identifying, assessing, mitigating and reporting of risks are sound and secure and to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:</p> <ul style="list-style-type: none"> • On review of the Operational Risk Register (ORR), it was identified that the Target Risk Score was not defined for each risk, as prescribed in the Managing Risk Strategy and Policy Statement. • No arrangements have yet been made by THH to action the recommendation made to the Board that a risk workshop should be held later in 2016. • We could not evidence the review and approval of the Managing Risk Strategy and Policy Statement by the Executive Management Team (EMT), Finance and Audit Committee (FAC) and the Board. • We were unable to confirm the operational risks being reported to the Finance and Audit Committee (FAC) during October 2015, January 2016 and April 2016, but, compliance was evident in the July 2016 FAC minutes received. In addition, we were only able to obtain EMT minutes for the meeting held in July 2016 but did not receive evidence of the requested minutes to cover the meetings held in October 2015, January 2016 and April 2016. Therefore, we were unable to gain reasonable assurance as to whether risks had been reviewed at these meetings. 	Extensive	Substantial 

		All findings and recommendations were agreed with Head of Resources, and reported to the Director of Business Transformation (THH) and Chief Executive (THH).		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Management and Control of Voids	Dec 2016	<p>A void is a residential property that is vacant, either available to let, even if some repair is still required, or a unit requiring repair in order to be available to let. Void properties arise due to a number of reasons, including the death of the previous tenant, the previous tenant finding accommodation with another landlord, the previous tenant buying their own home, abandoning the property or being evicted. In order to ensure that rent loss is kept to a minimum and housing stock is used in the most effective manner, void procedures are in place so that on notification of a property becoming empty, the empty property will be registered void and the void process will begin.</p> <p>Tower Hamlets Homes (THH) is responsible for the provision of 22,000 rented and leasehold homes on behalf of London Borough of Tower Hamlets (LBTH), with 50% of the stock relating to rented properties. The management of voids is under increased scrutiny as the demand for social housing far outweighs the supply and there are increased financial pressures. The audit was designed to provide assurance that management have put in place effective controls for administering, managing and controlling voids to ensure that assets are managed efficiently and effectively. The main weaknesses were as follows:</p> <ul style="list-style-type: none"> • Policy, procedures and guidance documentation is in place concerning Voids. It was established that this was reviewed in September 2016 to reflect current working practices. We were further informed that the documentation will be subject to formal approval by the Voids Panel once it has been updated following completion of the ongoing voids project. • There is a Tenant Recharge Policy in place that stipulates when tenants would be responsible for the costs of the repairs such as intentional damage to the property. However, there is currently no mechanism on the system to enable these recharges to be actioned. • Voids requiring fumigation and pest control intervention are classified as short-term relets in terms of monitoring performance. We were informed by the Neighbourhood Area Manager that this is not consistent with other housing associations. 	Extensive	Substantial 

		All findings and recommendations were agreed with Neighbourhood Area Manager and Head of Neighbourhoods, and reported to the Director of Neighbourhoods (THH) and Chief Executive (THH).		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bancroft TMC Follow-Up	Dec 2016	<p>A Tenant Management Co-operative or Organisation (TMC or TMO) is a form of participative tenancy organisation, in which the tenants and leaseholders in a particular area take on responsibility for the day-to-day management of their estate. The Council retains ownership of the properties, and the tenants retain their tenancy rights. Monthly General Meetings are held which are open to all resident members of the estate, and a Management Committee of the elected members holds regular monthly closed meetings. A Finance and HR sub-committee also meets ten times a year. It should be noted that Bancroft TMC does not have responsibility for major repairs works. The annual budget for Bancroft TMC for 2016/17 is £582,679 and the service has spent £244,891 year-to-date with income of £242,783 (overspend of £1,908).</p> <p>Our follow up review identified that of the one high and three medium priority recommendations made in the original audit report, two medium priority recommendations had been fully implemented whereas the high priority recommendation and the remaining medium priority recommendation were partly implemented. Following our testing, we have made two further recommendations to enhance the control environment within this area, as follows:</p> <ul style="list-style-type: none"> • It is recommended that The Financial Regulations and Procedures are fully reviewed and updated with the relevant procurement routes. Once reviewed and updated, this should be presented at the next Finance / HR Committee for approval on 25 October 2016. • It is recommended that the mystery shopping exercise is formally introduced to ensure satisfaction and compliance with procedure. <p>All findings and recommendations were agreed with the Bancroft TMC Director and reported to the Chief Executive (THH), Chair (TMC Committee), THH Director of Finance and THH Director of Neighbourhoods.</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Caretaking and Estates Management	Dec 2016	<p>Tower Hamlets Homes (THH), as an Arm's Length Management Organisation (ALMO) working on behalf of the London Borough of Tower Hamlets (LBTH), is responsible for providing caretaking and estates management services to around 900 blocks in 27 neighbourhoods. Environmental Services has 205 staff in total made up of caretaking, grounds maintenance and drainage staff as well as office support including 152 caretakers, managed by 13 team leaders, two area managers and a Head of Service. An in-house Grounds Maintenance Team and Drainage Team is in place along with office support.</p> <p>Satisfaction targets are monitored and reported at board level. There are both internal (in-house) and external (independent) monitoring of processes to help ensure the core targets are met. For this purpose, the in-hours team performs block inspections on a monthly basis and KWEST Satisfaction perform a monthly survey for a sample of residents (tenants and leaseholders), providing feedback to act upon. There is a Service Level Agreement (SLA) between THH and LBTH for the provision of waste management services, through which LBTH has contracted Veolia.</p> <p>The existing sum of core budget provision for 2016/17 is approximately £8.2m and current sum of delegated budget provision for 2016/17 is approximately £975,000. Core budget is the money from the Housing Revenue Account which is made up of rent paid by the residents and LBTH gives THH a management fee from this which is used for core functions such as Payroll. Delegated budget is the money spent on behalf of LBTH, for example budget to provide concierge services supplied by an external contractor.</p> <p>The audit was designed to assure management that there are sound systems in place for managing and monitoring services, ensuring that services are well planned, managed and controlled in order to achieve key service objectives; and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. The main weaknesses were as follows:</p> <ul style="list-style-type: none"> • From a sample of 20 bulk refuse orders tested, in 7/20 cases, the number 	Extensive	Substantial 

		<p>of orders reported by Veolia staff as collected was less than the orders the contractor should have collected. There were no reasons provided for the non-collections.</p> <ul style="list-style-type: none"> • Testing a sample of 20 blocks (from across the 27 neighbourhoods) established that, in one case, the relevant block inspection form was not completed. Furthermore, in three cases, action points were not recorded by the Team Leader although these should have been recorded due to the poorer rating given to these blocks. • Minutes for the latest three contract monitoring meetings with Veolia were requested. However, it was advised that, due to staff restructure and various resource difficulties, meetings have not been taking place on a regular basis and that only three meetings have taken place in the last 12 months. • Testing was performed on a random selection of five caretakers and it was established that, in four out of five cases, one-to-one meetings with the caretaker did not take place on a regular basis. • A total of three Grounds Maintenance weekly monitoring maps detailing the time taken by each of the three teams were selected for testing, along with their respective two-weekly performance meeting minutes. In one case, for the week 04/07/2016, it was noted that, although the performance target (12 working days) for the seventh cut was missed by five days by team three, there was no reference to the missed target being discussed in the performance meeting as per the minutes received for 07/07/2016 - which is held between the Area Manager and the relevant Team Leader. <p>All findings and recommendations were agreed with Head of Environmental Services, and reported to the Director Neighbourhood Services.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Planning Decisions and Approval	Dec 2016	<p>The Council's planning guidance consists of a series of documents that provide a positive approach to managing development by helping to assess planning applications and create a more vibrant, sustainable community to improve quality of life for all.</p> <p>The audit was designed to provide assurance to management as to whether the systems and controls around the management of Planning Decisions and Approval are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:</p> <ul style="list-style-type: none"> • In three of the 25 full planning applications tested, exceptions were found where relevant planning documents were not scanned onto the Acolaid system. • In all of the 25 full planning applications tested, there was no evidence available to confirm that site visits were performed by the case officers before making a recommendation for approval/refusal on the planning proposal. • In one of the 25 planning applications tested, we could not confirm that the planning fees collected were correct as per the schedule of statutory fees. • In 10 (five valid on receipt and five validated subsequently) of the 25 full planning applications tested, the applications were not validated and registered within nine days of the receipt date. ('Valid on Receipt' implies the application submitted by the applicant initially is free from errors and does not need to be referred back for amendments. 'Validated subsequently' implies the application initially submitted by the applicant requires changes or further information before it can be confirmed as valid). • On review of the Planning and Building Control Service Plan for 2016/17 it was identified that targets have not been set for four indicators around planning decisions and approvals. • While performance reports were produced on a quarterly basis, there was no evidence of review of performance by senior management. 	Extensive	Substantial ↕


		All findings and recommendations were agreed with the Development Manager - Planning and Building Control, in consultation with the Deputy Service Head and Service Head, and reported to the Corporate Director, Development and Renewal		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of London Mayor's Community Infrastructure Levy (CIL)</p> <p>Follow Up Audit</p>	<p>Jan 2017</p>	<p>This follow up audit assessed the progress in implementing the recommendations agreed at the conclusion of the original audit in October 2015.</p> <p>Our testing showed that the one high priority recommendation made in the original audit report was implemented. The screen prints of the indices used when calculating the CIL charges were being taken and retained. In addition, an additional step has been added to the CIL guide document which required the full CIL calculation to be checked by another officer.</p> <p>Of the two medium priority recommendations, one required a tracking mechanism to be implemented to trigger the necessary checks to validate the CIL reliefs granted for Social Housing and Self Build Housing and apply any claw back of reliefs granted after 7 years. Although systems appear to have been introduced to trigger the necessary checks, as none of the trigger points have been reached, we were not able to test the effectiveness of these systems. The second medium priority recommendation in respect of the implementation of system software, is currently being progressed by the Council's ICT Strategic Partner, Agilisys. Management should ensure that the required software package to automate the administration of CIL is tested fully and duly implemented within the set time frame.</p> <p>All findings and recommendations were agreed with the Service Head, Planning and Building Control and final report was issued to the Corporate Director, Development and Renewal.</p>	<p>Extensive</p>	<p>Substantial</p> <p style="text-align: center;">↔</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Monitoring of Action Plan from Children's Serious Case Reviews	Dec. 2016	<p>This audit sought to provide assurance that systems and controls for monitoring and implementing the actions agreed as a result of serious case reviews (SCRs) are sound and secure. In accordance with Section 13 of the Children's Act 2004, the Authority has established the Local Safeguarding Children's Board (LSCB) to safeguard and promote the welfare of all children within the area.</p> <p>Our testing showed that in line with statutory guidance 'Working together to safeguard children' March 2013, the initiation of SCRs were reported to OFSTED and the national panel of experts within one month of the incidents taking place. The LSCB ensured that appropriate representations from relevant bodies were made in the SCRs and that a report was produced for the SCR and published on the LSCB website. However, we highlighted the following issues:</p> <ul style="list-style-type: none"> • The SCRs had some form of Action Plans and each action was assigned to a named officer of the Council and its Partners. Our testing showed that actions assigned to the LSCB Chair and LBTH officers had been progressed. However, the minutes of LSCB meetings showed very little evidence that the implementation of the action points assigned to Partners were being monitored by the LSCB who oversees this function. • A review of the LSCB Governance Strategy showed that arrangements and processes for overseeing the implementation and monitoring of the SCR action plans, had not been clearly documented. • A system needed to be set up for members of the LSCB and its Committees to formally declare any interests they might have. <p>All findings and recommendations were agreed with the Service Manager, Policy Programmes and Community Insight and final report was issued to the Corporate Director of Children's Services.</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Mary and St Michael Catholic Primary School	Feb 2017	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> • The Scheme of Delegation (SoD) should be reviewed and approved on an annual basis. The revised SoD document should then be presented to the FGB for approval and be appropriately minuted as approved. • Declarations of business interests should be obtained for all governors and staff with financial responsibilities on an annual basis. Where governors or staff have no interests to declare, "nil" returns should be completed. • Estimated financial commitments should be clearly outlined in the Raising Achievement Plan (RAP). The revised RAP should be presented to the FGB for review and approval should be clearly minuted. • Petty cash reconciliations should be completed on a regular and timely basis (i.e. monthly). Adequate supporting documentation should be retained with the reconciliations to evidence that the bank balance has been reconciled to the balance on the financial system. Petty cash reconciliations should be signed by the officer who prepared them, and should also be reviewed and signed off by an independent officer. • Payroll reconciliations should be undertaken on a monthly basis and documentation retained to confirm the completion of these. Once completed, the reconciliation should be independently reviewed and signed off by the Head Teacher. • The School should develop a Business Continuity Plan (BCP) which details the steps to be taken in the event of serious disaster or loss of key services. Once formulated, the BCP should be formally approved by the FGB or a delegated Committee. • The School should create and maintain a log of the policies they are required to have in place. The log should list the policies and include both current and future review dates so the School can schedule the review of 	Moderate	Substantial ⇒


		<p>the document into their work plan so they do not become out of date.</p> <ul style="list-style-type: none"> • Monthly Reconciliation Statements should be signed and dated by the officer who prepared them before being reviewed and signed off by an independent officer. • The results of the annual review of the School Fund should be presented to the FGB. This should be clearly minuted within the FGB minutes. • The School should create and maintain a Contracts Register to help manage and monitor key contract details including end dates, performance, and contract formalities such as liability insurance cover etc. • The School should ensure they have adequate insurance cover in place for the amount of cash held in the safe. • To help ensure a consistent and transparent approach in collecting outstanding debt, the School should adopt a formal Debt Policy outlining the debt collection procedures. • Appropriate pre-recruitment checks should be conducted for all new starters. This includes obtaining medical checks, prior to the new employee's start date. • A leavers checklist should be developed to assist in the staff leaver process and subsequently be retained in staff personal files. <p>All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
William Davis Primary School	Jan 2017	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> • The School should ensure that the Curriculum Committee's draft Terms of Reference (ToR) is completed and includes details of the expected meeting quorum before presenting it to the Full Governing Body for review and approval. • All Curriculum Committee meeting minutes should be signed off by the Chair of the Committee. • The School should ensure that all Governors and relevant staff should renew their Declarations of Business Interest annually and check that all parts of the forms have been completed. • The School Funds Account should be audited annually by an independent officer and signed off by them. The audited accounts should be presented for review to the Full Governing Body or delegated Committee, and the approval clearly minuted. • The School should carry out a full Inventory Check as soon as possible. The results, including the list of assets marked for disposal (covering the disposal list from February 2014), should be presented to the Full Governing Body for review and sign-off. This should be formally minuted in the meeting. • The School Development Plan should include financial estimates. • The School should produce desk instructions and procedural guidance on performing key office tasks to help with contingency in cases staff absences. • The School Funds Account reconciliations should be signed by both the Finance Officer and the Head Teacher. • All payroll reconciliations should be signed off by both the Finance Officer and the Head Teacher. • The School Funds Account should be used solely for School use. Staff gifts should be purchased from staff contributions. • The School should seek the advice of Local Authority before entering into new lease agreements. 	Moderate	Substantial 

		<ul style="list-style-type: none"> • The School should confirm the tax status (including the Inland Revenue tax code) of all self-employed individuals. • The Loan of Equipment forms should be updated with adequate details on the employee's responsibility for insurance and safekeeping of the asset including the anticipated return/inspection date. The Loan of Equipment should be authorised by a delegated officer separate to the staff member who is loaning the item. • All Staff should be removed off the School's IT systems and Network by the end date of their contract. • The School should ensure that an End of Journey Statement is produced and presented to the Full Governing Body for review and sign-off. • To help ensure a consistent and transparent approach in collecting outstanding debt, the School should adopt a formal Debt Policy outlining the debt collection procedures. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Phoenix Primary and Secondary School	Jan 2017	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> • All unpresented cheques should be reviewed and followed up with the supplier after three months of issue, to ascertain the reason for non-presentation. All unpresented cheques over six months old should be cancelled where no response has been received and be removed / written back on the RM Finance system. • The School should ensure that an initial costing report and an End of Journey Statement is produced and presented to the Full Governing Body for review and sign-off. • Where the lowest quote is not accepted, formal approval should be obtained from the Governors and formally minuted. • The Financial Consultant should sign-off the key documentations in the monthly reconciliation pack as evidence of being reviewed / checked. • The School Fund account reconciliations should be reviewed and signed-off by an officer independent of the reconciliation process. • The audited School Fund account should be presented for review to the Full Governing Body, or delegated committee, and the approval clearly minuted. • The School should confirm the tax status (including the Inland Revenue tax code) of all self-employed individuals, and also that the contractor holds suitable public liability insurance. • Regular banking should be undertaken to help ensure that the safe limit is not breached. Alternatively, the School should consider increasing the insurance limit. • To help ensure a consistent and transparent approach in collecting outstanding debt, the School should adopt a formal Debt Policy outlining the debt collection procedures. • The School should consider developing a leaver's checklist to capture all the necessary checks and information into one comprehensive document for 	Moderate	Substantial ⇒


		<p>when a member of staff leaves. This should be kept in the member of staff's personnel file.</p> <ul style="list-style-type: none"> • The School should ensure the results of the annual Inventory Check and the list of assets marked for disposal is presented to the Full Governing Body for review and sign-off once the check is completed. This should be formally minuted in the meeting. • The loan of School equipment form should be signed-off by the member of staff authorising the loan. All equipment should be checked every term in line with the loan agreement and signed-off by the person carrying out the check. • The School should develop a formal Data Disposal Policy which clearly defines what is and how sensitive data is disposed of. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Peters (London Docks) CoE Primary School	Nov 2016	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> • The School Funds Accounts should be audited on an annual basis by an individual with relevant financial knowledge and independent of the operation of the School. The audited accounts should be presented for review to the FGB, or delegated committee, and the approval clearly minuted. • The School should ensure that an initial costing report and an End of Journey Statement is produced and presented to the FGB for review and sign-off. • The Governing Body should revise and formally approve its Terms of Reference (ToR) for the Governing Body and each Sub-Committee. Each ToR should outline the responsibilities, relevant financial limits, frequency of meetings, and quorum requirements. The ToR should be consistent with the Scheme of Delegation. • All staff should complete a pre-employment medical questionnaire as part of the recruitment process. • The School should ensure the results of the annual inventory check is presented to the FGB for review and sign-off once the check is completed. This should be formally minuted in the meeting. • The new loan of school equipment recording process should mimic all the data that they currently record and also include the date of return. • The School should consider whether insurance is required for cash held in the safe and purchase cover if appropriate. • Debts should be reviewed on a monthly basis and followed up with parents / carers to help aid timely recovery. Where debts cannot be recovered, these should be reported on a regular basis to the Governors for approval of formal write-off. <p>All findings and recommendations were agreed with the Head Teacher and School Business Manager and reported to the Chair of Governors.</p>	Moderate	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Arnhem Wharf Primary School	Feb 2017	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> • Budget monitoring reports should be prepared promptly following the month end and signed-off by the Head Teacher to evidence a formal review. • Bank reconciliations should be completed promptly following the month end to enable the Head Teacher to undertake an independently review and sign-off. • The results of the School Fund account audit should be presented for review by the Full Governing Body or delegated committee on an annual basis and the approval minuted. • Purchase orders should be raised where appropriate and authorised in accordance with the Scheme of Delegation before the order is placed with the supplier. A copy of the purchase order should be retained on file. • Payroll reconciliations should be undertaken on a monthly basis. The reconciliation should be independently reviewed and signed-off by the Head Teacher with documentation retained to evidence this has taken place. • The School should undertake an annual Inventory Check. Once completed, the results of the Inventory Check and items marked for disposal should be presented to the Full Governing Body for review, approval and sign-off. This should be formally minuted in the meeting. • The School should create and maintain a log of the policies they are required to have in place. The log should list the policies and include both current and future review dates so the School can schedule the review of the document into their work plan in so they do not become out of date. • The School Development Plan should be reviewed and updated annually. The revised Plan should be presented to the Full Governing Body for review approval, and minuting. • Payments should be made to suppliers within 30 days of the invoice date, receipt of invoice or supply of goods/services. Where payment is delayed, the invoice should be annotated accordingly. • The School should consider developing a leaver's checklist to capture all the 	Moderate	Substantial 

		<p>necessary checks and information into one comprehensive document for when a member of staff leaves. This should be kept in the staff members personnel file.</p> <ul style="list-style-type: none">• An End of Journey Statement should be produced and presented to the Full Governing Body for review and approval as soon as the trip has concluded.• The equipment loan forms should be amended to include a space for indicating when the item should be returned. Where an item is renewed, the form should clearly state that the item has been inspected and subsequently reissued and also include the next date that the item should be returned for inspection etc.• The School should ensure they have adequate insurance cover in place for the amount of cash held in the safe. <p>All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.</p>		
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Full Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Healthy Start Vitamins Follow-Up	November 2016	<p>A full systems audit on the Healthy Start Vitamins was undertaken in 2015/16, with the final report published in August 2015. This audit assigned an opinion of limited assurance to the area, based on the findings and the recommendations raised. This report presents the findings and recommendations of the follow up audit, conducted in July/August 2016; the objective was to assess whether the agreed recommendations at the conclusion of the internal audit had been implemented.</p> <p>Although discontinued by the Council from September 2016, Healthy Start is a government scheme to assist with improving health and wellbeing of pregnant women and their families. The scheme is in two parts, food vouchers and coupons for vitamins, although Tower Hamlets focused on the latter. The scheme was delivered as a targeted service based on eligibility for the national scheme. The scheme was expanded into a universal scheme which provided Healthy Start Vouchers exchanged for Healthy Start Vitamin Supplements to all pregnant, breastfeeding women and children under the age of four years. Eligible women were encouraged to register for the national programme and received vouchers that could be exchanged for fruits, vegetables and milk and the cost of the vitamins claimed back by the provider.</p> <p>Our follow up review showed that all the nine high priority recommendations made at the conclusion of the original audit had been fully addressed. Therefore, no further recommendations have been raised.</p> <p>All findings and recommendations were agreed with the Public Health Commissioning Programme Manager and reported to Director of Public Health and Corporate Director Adult Services.</p>	Moderate	<p>Full</p> 


APPENDIX 3

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

Audit Subject	Recommendation	Service Head	Officer Name
THH Bancroft	<p>It is recommended that The Financial Regulations and Procedures are fully reviewed and updated with the relevant procurement routes. Once reviewed and updated, this should be presented at the next Finance / HR Committee for approval on 25 October 2016.</p>	Neil Isaac	Julian Smith - Director
Petty Cash	<p>It is recommended that a training programme is developed covering all aspects of management of the petty cash accounts.</p> <p>Once the training programme has been developed, all remaining petty cash account holders should be required to attend a training course and should also receive annual refresher training.</p> <p>In addition, management should ensure that a log is prepared consisting of all differences as result of the spot checking procedures still to be enforced. These should be followed up on a monthly basis to ensure they can be appropriately actioned and resolved in a timely manner.</p> <p>The Compliance Team should ensure that spot checks take place on a monthly basis, where a sample of AP3 forms should be selected from both the Childrens and Adults directorates and appropriately reconciled to confirm accuracy and completeness. Once undertaken, this should be recorded and any non-compliance escalated as required. All spot checks should be appropriately dated by the responsible officer and the Petty Cash Account Holders List should be updated to reflect any changes that may now be relevant.</p>	Neville Murton	Danny Warren – Operational accountancy manager

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

Audit Subject	Recommendation	Service Head	Officer Name
Management of Mayoral CIL	Management should ensure that the required software package to automate the administration of CIL is tested fully and duly implemented within the set time frame.	Owen Whalley	Matthew Pullen
THH Bancroft	It is recommended that the mystery shopping exercise is formally introduced to ensure satisfaction and compliance with procedure.	Neil Isaac	Julian Smith - Director
Trading Standards	Target times for updating the Civica App system after visits are made should be formalised, communicated and routinely monitored to help confirm ongoing compliance.	David Tolley	Sean Rovai – Team Leader
Trading Standards	<p>Future monthly reports on pending complaints should also include a confirmation of compliance in respect of the timeliness to which responses to complaints have been provided (i.e. whether within the expected five working days).</p> <p>The summary results of this report should then be included for discussion at the one-to-one tasking meetings.</p>	David Tolley	Sean Rovai – Team Leader

<p style="text-align: center;"><i>Non-Executive Report of the:</i></p> <p>Audit Committee</p> <p>21st March 2017</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Zena Cooke - Corporate Director - Resources</p>	<p>Classification: Unrestricted</p>
<p>Internal Audit Plan 2017/18</p>	

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

1. Introduction

- 1.1. This report presents the proposed Annual Internal Audit Plan for 2017/18. The plan was compiled using the Internal Audit Strategy approved by the Audit Committee in December 2010 and endorsed each year thereafter as part of the annual planning process.

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

2. Recommendation

- 2.1. That the Audit Committee considers the proposed Annual Internal Audit Plan for 2017/18 at Appendix 1.

- 2.2. That Members may wish to consider other additional audits listed at Appendix 1.1, which have been drawn from the Audit Universe on the basis of Audit Needs Analysis.

3. Background / Methodology

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

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

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

Resources

- 3.4 The table below shows how provisionally the plan will be resourced between the in-house staff and our strategic internal audit partner, Mazars through the L.B of Croydon Framework Agreement.

Audit Resources 2016/17		Days	Days
In-house	5 auditors @ 195 days	975	
	Management	150	
			1125
Mazars	Core Audits	250	
	Computer Audit	100	
TOTAL			350
PLAN TOTAL			1,475

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

Annual Audit Plan

- 3.5 Appendix 1 shows the annual audit plan and provides a brief summary of the scope of each review. The plan also shows the source of the auditable area and its link to the authority's Strategic Plan Themes. The proposed plan will be presented at directorate DMTs and the CMT. Appendix 1.1 contains additional audits coming up for review which could potentially be factored into the plan subject to resource availability.
- 3.6 In summary, for 2017/18, the Internal Audit Plan comprises of 1,475 days across all directorates. In line with the established protocols, all changes to the agreed 2017/18 plan will be reported to the Audit Committee in December 2017.

	Original plan 2016/17	Revised Plan 2016/17	Audit Plan 2017/18
Corporate systems	185	195	115
Governance	40	0	25
Children's	230	260	285
Adults	85	85	-
Health, Adults and Community	-	-	85
Communities, Localities and Culture	150	172	-
Development & Renewal	115	120	-
Place			230
Tower Hamlets Homes	130	145	130
Resources	236	256	225
Computer audit	100	100	100
Follow-up, management and reactive fraud provision	250	188	280
Total	1,521	1,521	1,475

- 3.7 It should be noted the reviews planned for Tower Hamlets Homes are subject to further consultation with the Executive Management Team.

4. Comments of the Chief Finance Officer

- 4.1. The Chartered Institute of Public Finance and Accountancy's (CIPFA) document which sets out the role of the Chief Finance Officer states that; "Internal audit is an important independent internal scrutiny activity. Internal audits remit does not necessarily end within the organisation boundary but can extend to a partnership and alternative delivery model. The CFO must support the authority's internal audit arrangements and ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively."

This plan accords with the Internal Audit Strategy agreed by the Audit Committee and has been reviewed by Corporate Directors. It is presented to the Audit Committee for approval

5. Legal Comments

- 5.1. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 5.2. Under sections 15(5) and 15(6) of the Local Government Act 1999 the Secretary of State for Communities and Local Government issued legally enforceable directions in order to ensure that the Council complies with its obligations under part 1 of the Local Government Act 1999. Action 1 to be taken by the Council in respect of the Directions (as stated in Annex A to the Directions) the Council is to agree a plan with the Commissioners to ensure the compliance by the Council with the remainder of the directions. In preparing the Audit Plan, due consideration has been given to the Directions and Best Value Plan presented to the Commissioners.
- 5.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

6. One Tower Hamlets

- 6.1. There are no specific one Tower Hamlets considerations.
- 6.2. There are no specific Anti-Poverty issues arising from this report

7. Best Value Implications

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

8. Risk Management Implications

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

9. Sustainable Action for a Greener Environment (SAGE)

- 9.1. There are no specific SAGE implications.

10. Crime and Disorder Reduction Implications

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



London Borough of Tower Hamlets

Risk, Internal Audit and Control – Audit Plan 2017/18



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Foreword

The role of internal audit is important in supporting the Council achieve its goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2017/18 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, consultancy audits, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

In preparing the plan, it is important to recognise the contributions made by officers at the Departmental and Corporate Management Teams, the S151 Officer, and the Chair of the Audit Committee for which I am grateful.

Minesh Jani
Head of Risk Management and Audit

Context

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

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

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

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

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

Key Risks

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

Risk Ref..	Risk
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.
CSDR0002	Council's inability to meet demand for school places
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.
LPGSE0001	Failure to achieve community cohesion, Radicalisation of young people and gangs.
LPGSE0001	Non-compliance with corporate governance procedures.

No.	Risk
RSB0019	Maintaining and strengthening financial viability/balance in 2016/17 to 2017/18.
LPGSE0001	Failure to achieve community cohesion, Radicalisation of young people and gangs.
DR0029	Council is unable to identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019.
DRCPCCD0029	Failure to confirm the stage 2 Civic Centre client brief leads to the programme stalling and failing to meet business case objectives.
CLSCEI0008	There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response.
REV0007	Impact on local income from appeals on the new local rating effective from 1/4/17.
CSDSC0004	Incidents of serious violence where young people known to or in the care of the Local Authority are harmed or perpetrate harm in a community setting.
CLB0019	The Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed school at Christchurch Primary School.

The Role of Internal Audit

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

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

The public sector internal audit standards defines internal audit as:

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

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

London Borough of Tower Hamlets 2017/18 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council-wide reviews	115	8-9
Corporate Director - Governance	25	10
Corporate Director - Health, Adults and Community	85	11-12
Corporate Director - Children's Services	285	13-15
Corporate Director - Place	230	16-18
Corporate Director - Resources	225	19-21
Tower Hamlets Homes	130	22-23
Information technology audits	100	24
Follow up, management and reactive fraud provision	280	24
Total Provision	1475	-

Internal Audit Plan 2017/18

Corporate and Council-Wide Reviews

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Control and Monitoring of Agency Staff	To review controls and procedures for procuring, recruiting, vetting, controlling and paying for temporary agency staff across all the Directorates of the Council.	20	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Health and Safety at Work	To provide assurance that the Council's Health and Safety at Work policy and procedures are sound and are being complied with.	15	Audit Needs Analysis Corporate risk CLSCEI0008	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Attendance Management, including Annual Leave	To review the Council's arrangements for managing, controlling and monitoring of staff attendance and annual leave.	20	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Performance Management	To provide assurance that the Council's performance management scheme is sound and secure to achieve its key priorities and business objectives.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Control, Monitoring and Reporting of Executive Decisions Under Management Scheme of Delegation	This audit will examine the Council's procedures for reviewing and monitoring compliance with its Management Scheme of Delegation to ensure that Executive decisions taken by officers are within the scope of their delegated limits.	15	Audit Needs Analysis Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Programme and Project Management	This audit will review the Council's Corporate arrangements for ensuring that there are sound procedures and tools for managing and monitoring major change and savings programmes and projects.	15	Audit Needs Analysis Corporate Risk RSB0019	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Declaration of Interests	This will be stage 2 of the review of staff declaration of interests following a full systems review in 2016/17 (stage 1). The objective of the audit will be ensure that declaration of interests by staff are in accordance with Council policy and procedures.	15	Management Request Corporate Risk LPGSE0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Total		115		

Corporate Director - Governance

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Members' Interests and Hospitality and Gifts	The objective of this audit will be review the systems for reporting, recording and monitoring members interests and hospitality and gifts.	5	Audit Needs Analysis Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Procurement and Payment for Legal Advice	This audit will examine systems for procuring and paying for specialist legal advisors, barristers and solicitors to provide assurance that Council procurement procedures are complied with.	15	Audit Needs Analysis Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Member-Officer Protocol	To advise on the development of the protocol to ensure that proper safeguards are built in the interface between members and officers of the Council.	5	Audit Needs Analysis Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Total		25		

Corporate Director- Health, Adults and Community

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Social Service Practice Framework Compliance	The Adults Service team has adopted a social work practice framework to guide social workers in their professional practice. This audit will provide assurance that the Practice Framework is being complied with.	15	Management Request Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Electronic Home Care Monitoring System	To provide assurance that the newly implemented electronic system is operating effectively to ensure that the service users receive the required service and payments are made only for the service/hours provided.	20	Audit Needs Analysis Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
Contract Monitoring of Commissioned Services	This audit will examine systems and procedures for monitoring a sample of commissioned services to ensure that providers effectively deliver the services to vulnerable service users and that payments are made in line with the rates set out in the contract.	20	Audit Needs Analysis Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Costing of Care Plans	This audit will provide assurance that Care Plans for service users are developed to meet their service needs and that the plans are costed in accordance with established procedures to provide quality services to vulnerable adults.	15	Audit Needs Analysis Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
FWi – Payment Control	This audit will select a sample of payments made to a range of service providers, orders for which have been raised on FW-I system, to test that payments are being made only for the services ordered, received and at the agreed rates.	15	Management Request and Audit Needs Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
Total		85		

Corporate Director - Children's Services

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Leaving Care Service	This audit will review the management and control of Leaving Care services. The exact scope will be discussed and agreed with the Service Head, Children's Social Care.	15	Management Request Risk Register CSDSC0004	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Youth Service	This will be a comprehensive review of the present Youth Service Provision to provide assurance that the management and control around youth service is sound and secure to achieve the priorities and objectives of the Council.	20	Management Request Risk Register CSDSC0004 LPGSE0001	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Contract Audit	We will select a sample of building works in progress and test the effectiveness of contract management and monitoring to ensure that building works are delivered on time and to the agreed budget.	10	Audit Needs Analysis Corporate Risk CSDR0002	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Schools Probity Audit	The school visits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; and other key areas of schools' business.	160	Annual Programme of Audit	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Tower Hamlets Education Partnerships	This review will examine the systems for monitoring the arrangements the Council has with TH Education Partnership to ensure that the Council's priorities and objectives are achieved and that any additional funds paid are approved and scrutinised.	10	Management Request Corporate Risk LPGSE0001	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
School Governance and training/clerking service	This audit will review school governance and clerking services to provide assurance that the Local Authority's priorities and objectives in relation to school governance are achieved.	15	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Compliance with Academy Conversion Protocols	To review the Council's protocols for Academy Conversion and to provide assurance that the protocols are complied with.	10	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Quality of Care audits	This audit will provide assurance that the quality assurance and review systems over child protection cases are sound and secure.	15	Audit Needs Analysis and Management Request Risk CSD0016	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Prevent strategy	This audit will review the arrangements put in place to discharge the requirements of the Council's Prevent Duty and the effectiveness of the delivery and monitoring of the action plan.	15	Risk Register LPGSE0001	<i>Creating and maintaining a vibrant, successful place.</i>

	Broad Scope	Audit Days	Audit Source	<i>Link with Council's Strategic Plan Themes</i>
Management and Monitoring of Leisure Contract	This audit will examine systems for monitoring the Leisure contract to provide assurance that services delivered by the contractor and payments made are in accordance with the newly agreed contract terms and conditions.	15	Audit Need Analysis	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Total		285		

Corporate Director - Place

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Fixed Penalty Notices	This audit will review the systems for control and monitoring of Fixed Penalty Notices including officers' delegated to charge, collect and monitor income from FPNs across the Directorate.	15	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Licensing of Private Landlords	To review the effectiveness of the arrangements for licensing of private landlords to ensure that licenses are issued in accordance with council procedures and that income is collected and banked intact.	15	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Contract Procurement and Monitoring	This audit will review the systems and controls in place for procuring and monitoring contracts to ensure that Council procedures are complied with and that payments to contractors and income received from providers of concessionary services are in accordance with agreed rates and contract conditions.	25	Audit Needs Analysis Management Request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Waste Collection Contract Monitoring	To review systems and controls for effective monitoring of the waste contract ensuring that Council objectives and priorities are achieved.	20	Management request and Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Management and control of Markets (street trading)	To review the arrangements for managing and monitoring various aspects of Markets. Scope to be agreed with the Divisional Director, Public Realm.	20	Management Request	<i>Creating and maintaining a vibrant, successful place.</i>
Inspections of Parks	To assess the effectiveness of controls in place for regular inspection of Parks and to carry out the remedial works required.	15	Management Request Corporate Risk CLSCEI0008	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Lettings	This audit will examine systems, processes and controls for assessing applications for housing needs and allocating dwellings to those in high priority needs in accordance with the Council's Lettings policy and procedures.	20	Management request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Purchase of Properties outside borough for Homeless	This audit will review the controls put in place for purchasing and operating properties for Homeless outside the Borough.	15	Audit Needs Analysis and Management Request.	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Repairs and Maintenance of Administrative Buildings	We will review systems for identifying, ordering, inspecting, paying and monitoring the reactive and planned repairs and maintenance works to Administrative Buildings of the Council.	15	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place.</i>

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Homelessness assessment	This audit will provide assurance that systems and controls for carrying out homelessness assessment are sound and secure.	15	Audit Needs Analysis And Management Request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Community Building Portfolio Management	To review systems and controls for the management and letting of the Council's Community Building Portfolio to achieve the Council's priorities and objectives.	15	Audit Needs Analysis and Management Request.	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
New Town Hall Building Project	To provide assurance that there are sound and secure project management arrangements in place to manage and monitor various contractual agreements for commissioning and building of the new town hall.	15	Audit Needs Analysis Corporate Risk DRCPCCD0029	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Handy Persons services	This audit will review the newly restructured Handy persons Service to provide assurance that the service is efficient ,effective and meets Council's objectives.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Governance around Alternative Housing Delivery Options	This will be a review of governance arrangements put in place for the delivery models for providing additional housing.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Total		230		

Corporate Director - Resources

	Broad Scope	Audit days	Audit Source	Link with Council's Strategic Plan Themes
Monitoring of MSG Grant Programme	We will test the system for monitoring the delivery of the 2015-18 MSG grant programme to provide assurance that monitoring visits are effectively carried out and the probity around grant usage is monitored for delivery of projects and for value for money.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Request for Quotation (RFQ) System	This audit will review the controls around the newly implemented RFQ system to ensure that officers comply with the set procedures for procuring works, goods and services under £25,000.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
IR35 - Off-payroll Engagement of Individuals	The IR35 legislation specifically challenges those people who supply their services to Council via their own company, but are not recognised by HMRC, as 'self-employed' and therefore should be taxed s PAYE. This audit will examine controls for identifying individuals who may fall in this category.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Income Maximisation project	This review will provide audit advise and input into the income maximisation project to provide assurance that the project is delivering its key objectives and outputs.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	Broad Scope	Audit days	Audit Source	Link with Council's Strategic Plan Themes
Procurement Compliance	To carry out compliance testing to provide assurance that the Council's Procurement Procedures are fit for purpose and that compliance with procedures are controlled and monitored to achieve the objectives of the Council.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Treasury Management	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
HR/payroll	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
General Ledger	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Creditors	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Debtors	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
NNDR	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	Broad Scope	Audit days	Audit Source	Link with Council's Strategic Plan Themes
Pensions	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Housing and Council Tax Benefit	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Housing Rents	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Council Tax	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Revenue and Capital Budgetary Control	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Total		225		

Tower Hamlets Homes

	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
New Starters and Leavers	The objective of this audit is to review systems and procedures for controlling new starters and leavers to provide assurance that the controls around new starters and leavers are sound and secure.	15	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Staff Expense Claims	This audit will provide assurance that systems and controls for processing, approving and paying staff expenses are sound and secure.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Temporary Accommodation to Homeless	This review will provide assurance that management and administration processes of the transferred function are sound and secure.	15	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
IR35 - Off-payroll Engagement of Individuals	The IR35 legislation specifically challenges those people who supply their services to Council via their own company, but are not recognised by HMRC, as 'self-employed' and therefore should be taxed s PAYE. This audit will examine controls for identifying individuals who may fall in this category	10	Management Request and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management of Housing Disrepairs	This audit will review systems and controls for managing and controlling housing disrepairs.	10	Audit Needs Analysis and Management Request	<i>Creating and maintaining a vibrant, successful place.</i>

Tower Hamlets Homes	Broad Scope	Audit Days	Audit Source	Link with Council's Strategic Plan Themes
Post Inspections of Major Works	This audit will review systems and controls for planning, identifying, undertaking and reporting the results of the post inspections of works undertaken as part of the Major Works programme.	10	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place.</i>
Financial Systems	This audit will review the robustness of key financial systems such as income and expenditure systems, cash flow forecasting, Treasury Management, VAT and reconciliation processes, as part of the annual assurance on the soundness of financial control across THH.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Final Accounts Audit	To carry out final account audits referred to Internal Audit for certification	10	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Follow Up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Contract Audits	We will review the effectiveness of systems and controls for procuring, managing and monitoring building contracts to ensure effective cost control and programme control.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Total		130		

	Broad Scope	Audit Days	Audit Source	<i>Link with Council's Strategic Plan Themes</i>
Information Technology		100		
Other				
Follow up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	100		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management Requests	Contingency set aside to service Management requests during the year.	75		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Reactive Fraud	Earmarked resource to support the investigation of cases of potential fraud, irregularities, waste of public money and whistle blow inquiries directed to the team.	55		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management Time	Provision for management time to direct, control and monitor the work of the team.	50		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Grand Plan Total		1475		

Audits to be Considered but not included in the Plan

Appendix 1.1.

Corporate and Council-wide Reviews	Audit Days	Place Directorate	Audit Days	Governance Directorate	Audit Days
Management of Complaints	15	Control of Public Art, sculptures and valuables	10	Management of FOI requests	10
Scheme of Delegation	15	Display Screen Equipment (DSE) Assessment and Data Quality	10	Management of IT Security breaches and incidents	10
Management of Asbestos and Legionella	15	S 106 Non-financial Obligations	15	Management of Members Enquiries	15
Management of Efficiency Programme	15	LBTH Community Infrastructure Levy	10	Members Allowances and Payments	10
Sickness Management	20	Children's Services Directorate		Members Expense Claims	5
Service Planning	15	Grouped Schools PFI	15		
Management of Mayoral Priorities	15	Pupil Referral Unit	10	Tower Hamlets Homes	
		Meals on Wheels – Income Collection and Banking	10	Staff Declarations of Interests	15
Adults Directorate		Teachers Pensions - Arrears	10	Management of ICT systems access and control	15
Day Centres	10	Community Languages	15	Information Security and DPA control	15
Luncheon Clubs	15			Policing of ASB	15
Delivery of Substance Misuse services	15	Resources			
Occupation Therapy	15	HB Overpayments and Recovery	10	Management of Conditions Surveys	10
Assessment of Needs	15	Grants Payments System	10	Management of Complaints and Service Failure	15
Court of Protection (receivership)	15	Management and Control of Job Evaluation	10		
Reviews of Care Plans	10	Management of Variable Pay	15		
		Management of Tollgate Reviews	15		

Assessment Categories

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

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

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

Assessment Process

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

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

Calculation of the Audit Risk Index

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

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

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

Results of the Audit Risk Assessment

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

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

Internal Audit Risk Assessment Matrices

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Risk Assessment Matrices

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

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

Internal Audit Mission and Charter

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

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

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

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

Purpose

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

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

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

Authority

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

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

Responsibility

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

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

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

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

Reporting

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

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

Independence

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

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

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

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

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

Due Professional Care

The Internal Audit function is bound by the following standards:

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

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

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

The Internal Strategy

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

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

Internal Audit Objectives

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

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

Internal Audit's Remit

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

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

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

and improve the Council's operations.

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

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

Service Delivery

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

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

Internal Audit Planning

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

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

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

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

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

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

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

Follow-up

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

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

Reporting

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

The Internal Audit Process

The Pre-Audit Stage

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

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

During the Audit

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

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

Post Audit Stage

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

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

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

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

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

The Monitoring Process

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

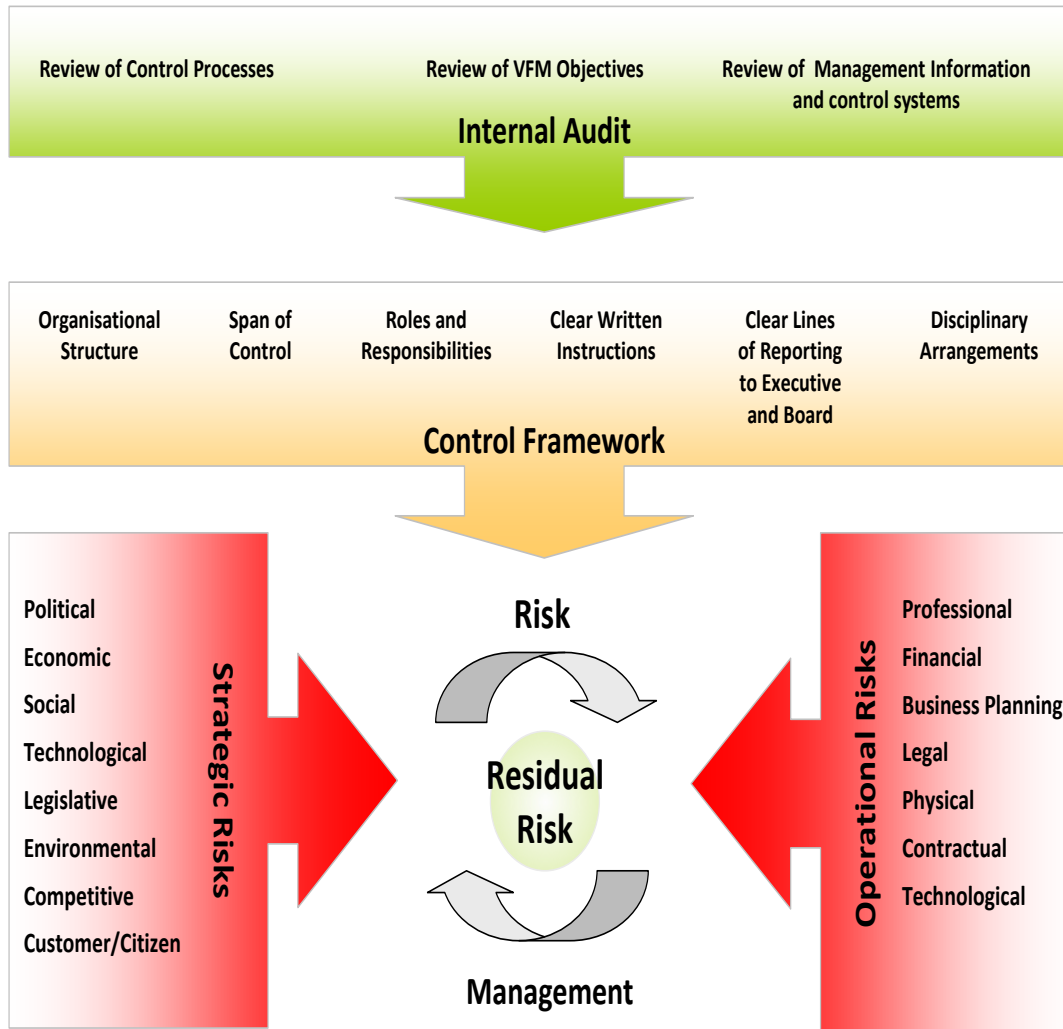
Internal Audit recommendations are classified as follows:

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

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

Summary

Appendix 6



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

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

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

Definitions

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

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

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

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



Objectives of Risk Management:

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

These Objectives will be Achieved by:

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

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

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

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

Roles and Responsibilities

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

Risk Management Action Plans

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

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

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

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


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

Classification of Risk

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

Competitive Failure to show best value Failure of bids for government funds	Customer/Citizen Lack of appropriate consultation Bad public and media relations		
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<p style="text-align: center;"><i>Non-Executive Report of the:</i></p> <p>Audit Committee</p> <p><i>21st March 2017</i></p>	 <p>TOWER HAMLETS</p>
<p>Report of: <i>Zena Cooke - Corporate Director - Resources</i></p>	<p>Classification: <i>Unrestricted</i></p>
<p>Tenancy Fraud Update</p>	

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

1. Summary

- 1.1 This report provides the Audit Committee with an updated summary of activity from the start of the current financial year to date and identifies emerging trends and challenges facing the service in both increased risks as well as demands on delivery.
- 1.2 The report advises that the target set for a total recovery of 50 units across all Common housing Register partners and THH will be largely achieved based on current performance and projection.

2. Recommendation

- 2.1 To note the content of the update report.

3. Background

- 3.1 The Tenancy and Social Housing Fraud team, based at the Town Hall, provide a service to the Council aimed to 'Prevent, Detect and Deter' any abuse of the provision and use of social housing. In addition to Tower Hamlets Homes (THH), the various RP's working to the common housing register can also expect a service from the team. Sub-letting, abandonment, application fraud, right to buy fraud and abuse are the main areas of focus.
- 3.2 Government figures acknowledge that between 4% and 6% of all social housing is illegally sublet with a cost figure to the public purse of £18,000 per annum per unit. This cost equates with an average cost of housing a small family unit in temporary accommodation for a 12 month period. However the costs in Inner London are significantly higher with a figure of £22K being the norm at Tower Hamlets. It is also acknowledged that inner London sublet percentages are significantly higher than the national average. The cost to THH is estimated to be in excess of £13m per annum.

4. Resources

- 4.1 The team has an establishment of five (5) Investigators with one (1) Team Leader. THH provide two (2) Investigators which is further broken down into one (1) permanent officer currently on secondment to the team and one (1) temporary resource sourced via Comensura.
- 4.2 The balance of the staff, three (3) plus the Team Leader is funded by the Council.

5. Team Performance

- 5.1 An agreed target of the recovery of fifty (50) properties was set for the team for the financial year 2016 / 17. This is an ambitious figure. As of 13th February 2017 we have achieved thirty Nine (39) recovered sublet properties, twenty-eight (28) of which were THH units, stopped nine (9) Right to Buys/ Acquire. In addition we have achieved seven (7) other cases including Parking Permits, Mutual Exchanges and Housing Applications.
- 5.2 These figures have been achieved against a background of resource challenge and one (1) Council investigator has been exclusively working on a complex fraud case for which a successful prosecution has been achieved.
- 5.3 The vacant contractors post was filled in October 2016 and the above case has now come to a conclusion.

6. Risk and Challenge

- 6.1 The challenges for the team can clearly be seen from the above figures. Each case requires active investigation with time and effort to gather evidence to support any allegation of subletting, abandonment or breach of tenancy. The preferred resolution for the team is a simple surrender of the property which saves time and expense of legal procedure. However each case is evaluated on its own merit and where evidence of profit is/ was being made or where there has been a fundamental miss-statement of material facts either at the point of Homelessness or at Tenancy award, this will be referred to Legal Services for consideration for prosecution. The Legal Service will consider either a Civil or Criminal resolution in cases from the team. For prosecutions, Legal Service will assess the case against the 'Code of Crown Prosecutors' and the case will have to satisfy firstly the evidential stage and then the public interest stage. If it is only if both are satisfied that the prosecution is taken.

7. Process

- 7.1 Any case referred to the team is first subject to an evaluation process through the Intelligence Team. Each is scored and if it reaches a threshold it will be opened as an investigation. After initial development work within the Intelligence Team including data searches, systems analysis, and vouching against internal systems, it will be allocated to an investigator for formal examination.

8. Workload – Process- THH Only

- Two hundred and thirty-nine (239) investigations opened since 1st April 2016
- One hundred and seventeen cases closed since 1st April 2016
- Thirty-four (34) cases awaiting allocation to an investigator
- Sixty (60) with the Intel Team being evaluated

9. Workload – Investigators- THH Only

- Eighty (80) cases actively being investigated by an Investigator

10. Conduct of an Investigation

- 10.1 The Investigator will retain ownership of a case when it has been passed to legal for court action to possess the property. Currently there are eleven (11) cases in the legal process.
- 10.2 Any Investigation must be proportionate, relevant and timely. With an often transient sublet population who will not usually assist an

investigation, action must be taken promptly. It can take a lengthy period of time before a prepared case can be allocated for investigation.

11. Right To Buy

- 11.1 This is an expanding area of our work with a 42% increase in right to buy (RTB) applications in the past year. The main reason for this is the Government reduction in the qualifying length of tenancy coupled with an increase in discount. Although the Council have a duty to assist persons with a genuine right to buy, a study of RTB property in inner London shows that around 33% of all sold RTB properties appear on the private rental market within a year of sale. The legislation was brought about to enable people to own their own home and not profit from letting out.
- 11.2 With the current shortage of available social housing stock it is essential that we undertake appropriate due diligence with every application received. We have successfully engaged with the THH Right to Buy team and the Councils Legal Service and have suggested a number of control improvements to ensure we take appropriate action to manage our risks. This has included a Money Laundering protocol and enhanced links have been established with Financial Institutions.
- 11.3 This is an area of development and does not fall clearly into the investigative template for sublet. At present many of the queries arise at a very late stage when the matter is with legal thus leaving a limited time available for investigation. The main source of concern is the provision of funding. The council are a responsible body under money laundering regulations so we are under a duty to satisfy ourselves that any monies received from the sale of assets are legitimate and have had all due taxes paid.
- 11.4 Experience has shown that a declaration of funding is often very late. Instances of Mortgage fraud and cases where the funding has come from overseas have been identified and there has been clear intent of the leasehold passing to that overseas company as soon as a sale has taken place.
- 11.5 This is an area of work currently carried out by the Team Leader but there is scope for an additional investigator to take on this workload. We are currently preparing a detailed governance type examination utilising skills from the Councils Risk Team to assist the Service and ensure wherever possible we minimise the scope for abuse while recognising the need to process RTB applications in accordance with prescribed deadlines/ guidelines.

12. Key Amnesty

- 12.1 The team ran a well-publicised key amnesty early in 2016. As a result a total of nine (9) properties were surrendered. Eight (8) of these belonged to THH. Several of these were already on our radar. Sixty One (61) cases were opened for investigation following calls to the hotline and we can attribute a further six (6) returns as a direct result. The value of this exercise was, inter alia, that it saved valuable time and cost through the offering up of units that potentially could have been recovered during our investigative processes. This reduced the additional cost and resource implication involved with our work to recover such units of accommodation.
- 12.2 This illustrates the need for publicity and public awareness. We are reliant on the provision of intelligence and information to the team so that we can further the return of properties that are being illegally abused.
- 12.3 The risk from the large number of cases is that members of the public want to see the council taking action following their calls and with limited resources it is not always possible to act on each one immediately because of the time it takes to properly investigate each instance.

13. Tenancy Audit

- 13.1 The team work closely in partnership with the housing officers and the Team Leader works closely with housing management. We have had discussions with management as regards organised and targeted tenancy audits. From this we are confident that further information will come to light to assist recovery of properties.

14. Conclusion

- 14.1 This is an ongoing and essential piece of work within the Risk Management Service. There is a considerable risk to the Council and ALMO in both financial and reputation terms should it be ignored.

15. Comments of the Chief Finance Officer

- 15.1 This is a noting report and there are no additional financial implications arising from it. Continuing to pursue cases of fraud is an essential part of good financial stewardship.

16. Legal Comments

- 16.1 Housing fraud undermines public confidence in social housing and causes indirect harm to other persons seeking accommodation.

16.2 When considering the progress on tackling housing fraud, the Council should ensure that the arrangements in place are consistent with the Council's best value arrangements. The Council is obliged as a best value authority under section 3 of 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" (the Best Value Duty). As indicated in paragraph 18.1, the report highlights areas where internal control, governance and risk management can be improved. This is consistent with the Council showing compliance with its Best Value Duty.

16.3 When considering action on tackling housing fraud, due regard must also be had to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). A proportionate level of equality analysis is required to discharge the duty.

17. One Tower Hamlets

17.1 There are no specific one Tower Hamlets considerations.

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

18. Best Value Implications

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

19. Risk Management Implications

19.1. This report highlights risks arising from exploitation of assets for personal gain. The ongoing management of risks through enhanced vouching and control will assist so that effective governance can be put in place to manage the authority's exposure to risk.

20. Sustainable Action for a Greener Environment (SAGE)

20.1. There are no specific SAGE implications.

21. Crime and Disorder Reduction Implications

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

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- None


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

- None

Officer contact details for documents:

N/A

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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>21 March 2017</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Zena Cooke, Corporate Director of Resources</p>	<p>Classification: Unrestricted</p>
<p>Treasury Management Quarterly Update for Quarter Ended December 2016</p>	
Originating Officer(s)	Bola Tobun - Investment & Treasury Manager
Wards affected	All wards

Summary

This report advises the Committee of the Council’s borrowing and investment activities from the start of financial year 2016/17 to 31 December 2016. The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2016/17 were approved by the Council on 24 February 2016 as required by the Local Government Act 2003.

The report provides information on the economic conditions prevailing in the third quarter of 2016/17. The report also provides a summary of the prudential indicators, treasury management indicators and a summary of the credit criteria adopted by the Corporate Director of Resources for the reporting year and the projected investment returns.

The Council earned an average return of 0.65% on its lending, outperforming the actual rolling average 7 day LIBID rate of 0.12%.

No long-term or short-term borrowing has been raised since the commencement of this financial year 2016/17 to reporting period.

Recommendations

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for quarter ending 31 December 2016;
- note the Council’s outstanding investments as set out in Appendix 1. The balance outstanding as at 31 December 2016 was £448.75m which includes £9.5m, pension fund, working capital cash;

1 REASONS FOR DECISIONS

- 1.1 This report updates on both the borrowing and investment decisions made by the Director of Resources under delegated authority in the context of prevailing economic conditions and considers Treasury Management performance measured against the benchmark 7 day LIBID rate.
- 1.2 Treasury management is defined as “the management of the council’s investments and cash flows; its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.3 Legislation requires that regular reports be submitted to Council/Committee detailing the council’s treasury management activities.
- 1.4 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on implementation of investment strategy as approved by Full Council.

2 ALTERNATIVE OPTIONS

- 2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities.
- 2.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, as there is a need to ensure that Members are kept informed about treasury management activities and for the Members to ensure that these activities are in line with the investment strategy approved by the Council.
- 2.3 Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

3. BACKGROUND

- 3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 3.2 These reports are in addition to mid-year and annual treasury management outturn reports that should be presented to the Council midway through the financial year and at year end respectively.

3.3 TREASURY MANAGEMENT STRATEGY 2016/17

- 3.3.1 The Council’s Treasury Management Strategy was approved on 24 February 2016 by Full Council. The Strategy comprehensively outlines how the treasury function would operate throughout the financial year 2016/17 including the limits and criteria

for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt.

3.3.2 The Council complied with the strategy from the onset to reporting period, 31 December 2016. And all investments were made to counterparties within the Council's approved lending list.

3.3.3 The Pension Fund cash awaiting investment has been invested in accordance with Council's Treasury Management Strategy agreed by Full council on the 24 February 2016, under the delegated authority of the Corporate Director of Resources and is being managed in-line with the agreed parameters. The Pensions Committee is updated on Pension Fund investment activity on a quarterly basis.

3.4 ECONOMIC COMMENTARY

3.4.1 The Bank of England (BoE) cut the bank rate for the first time since 2009 to 0.25% in August 2016, as the Monetary Policy Committee (MPC) voted unanimously in favour of a cut. It also expanded its Quantitative Easing (QE) programme by £60bn to £435bn; however three policymakers voted against the expansion. In addition, the BoE unveiled two new schemes: one to buy £10bn of high grade corporate bonds and the "Term Funding Scheme". This could be worth up to £100bn and is aimed at ensuring banks keep lending into the real economy even after rates have been cut. Both the Bank Rate and Quantitative Easing program were left unchanged in the February MPC meeting.

3.4.2 The February Inflation Report showed the BoE amended its growth forecast for the UK to reach 2% in 2017. Inflation forecasts are now expected to remain above the 2% target until 2020. The headline inflation figure, CPI, rose to 1.8% in January on an annual basis, whilst the monthly figure was recorded at -0.5%. The fall in sterling and higher global oil prices are the main contributors to this increase.

3.4.3 The preliminary estimate for Q4 GDP showed a rise of 0.6%, unchanged from the previous quarter. On the year, growth was 2.2% higher than a year ago.

3.4.4 The UK unemployment rate remained at 4.8% in Q4 2016, the unemployment figure was recorded at 1.597m. British wage growth, including bonuses, rose by 2.6% in December on an annual basis. Excluding bonuses, growth in average weekly earnings in December rose by 2.6% year-on-year.

3.4.5 Nationwide revealed house prices rose by 0.2% in January with the prospect of weaker employment growth and higher inflation likely to affect the growth rate in 2017. According to Halifax, house prices fell by 0.9% in January, the first monthly fall since shortly after the Brexit vote in June 2016. In the three months to January annual house price growth cooled to 5.7% from 6.5% in the three months to December.

US

3.4.6 The first estimate for Q4 GDP in the US was recorded at an annual growth rate of 1.9%, a fall from the 3.5% recorded in Q3. A plunge in shipments on food products pushed exports down but rising business investment suggests the economy will continue to expand.

3.4.7 In December 2016, the Fed raised interest rates to a range between 0.50%-0.75% after initially increasing them in December 2015 for the first time since 2006. This increase comes after positive rises in employment and labour market conditions. Non-farm payrolls rose by 227,000 in January, a rise from December's adjusted figure of 157,000. The unemployment rate increased to 4.8%.

EU

3.4.8 The flash estimate for Eurozone Q4 GDP showed quarterly growth remained unchanged at 0.4%. Q4 Annual growth fell to 1.7% from 1.8% recorded in Q3.

3.4.9 In its January meeting, the European Central Bank (ECB) stuck with the status quo keeping both its main refinancing rate and deposit rate steady at 0% and -0.40% respectively. The ECB announced their QE programme in January 2015 and began the programme in March 2015. They initially planned to inject €1.1trn into the economy by purchasing private and public assets worth €60bn per month, this was later expanded to €80bn per month. In its January 2017 meeting, the ECB decided to continue with its €80bn per month asset purchases until March 2017. From the 1st April 2017 the purchases would be reduced to €60bn per month and the period extended to December 2017 or beyond if necessary.

China

3.4.10 China's annual GDP grew faster than expected by an annual rate of 6.8% in Q4, as increased government spending and record level bank lending contributed to the rise as well as continued strong investment in the property sector. As a result, the economy expanded by 6.7% for 2016. The People's Bank of China temporarily lowered the reserve requirement ratio for the five biggest banks by 1% to 16% in January 2017.

3.4.11 In an attempt to boost its slowing economy, China surprised markets and devalued the Yuan after a run of poor economic data. It is intended to help combat the large falls seen in exports.

3.5 INTEREST RATE FORECAST

3.5.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

UK Interest Rate Forecast

Bank Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%
5yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	1.42%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.42%	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.16%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.16%	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.84%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.84%	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.60%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

3.5.2 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling after early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

3.5.3 During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

3.6 Annual Investment Strategy

3.6.1 The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, it outlines the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

- 3.6.2 The Council aims to achieve the optimum return (yield) on investments equivalent with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.
- 3.6.3 The approved limits within the Annual Investment Strategy were not breached for the reporting period, quarter ending 31st December 2016.

Investment performance for quarter ended 31 December 2016

Benchmark	Benchmark Return	LBTH Performance	Over/(Under) Performance
Full Year 2015/2016	0.35%	0.82%	0.47%
Quarter End June 2016	0.36%	0.78%	0.42%
Quarter End September 2016	0.20%	0.72%	0.52%
Quarter End December 2016	0.12%	0.65%	0.53%
2016/17 Year to Period	0.23%	0.65%	0.42%

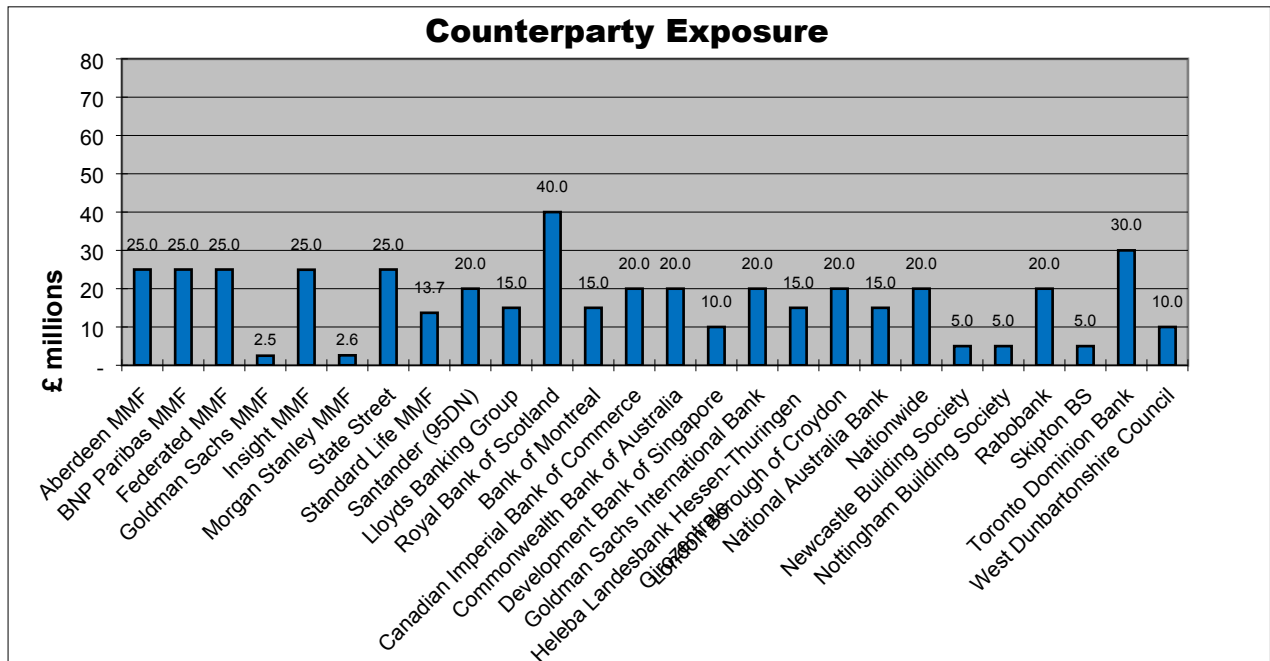
- 3.6.4 As illustrated above, the Council outperformed the benchmark by 42bps for financial year to date. The Council's budgeted investment return of £2.7m for 2016/17 at 0.9% for £300m average balance. The performance to date is 0.65% with average balance of £448.75m. The cash balance is £148.75m more than the budgeted amount and the investment return to date is 25bps lower than the budgeted average investment return. This is due to the poor investment rates available due to global economic outlook and market sentiments.
- 3.6.5 The level of funds available for investment purposes during the reporting period was £448.75m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and the impending pension fund investment.

3.7 Investments Outstanding & Maturity Structure

- 3.7.1 The table below shows the amount of investments outstanding at the end of December 2016, split according to the financial sector.

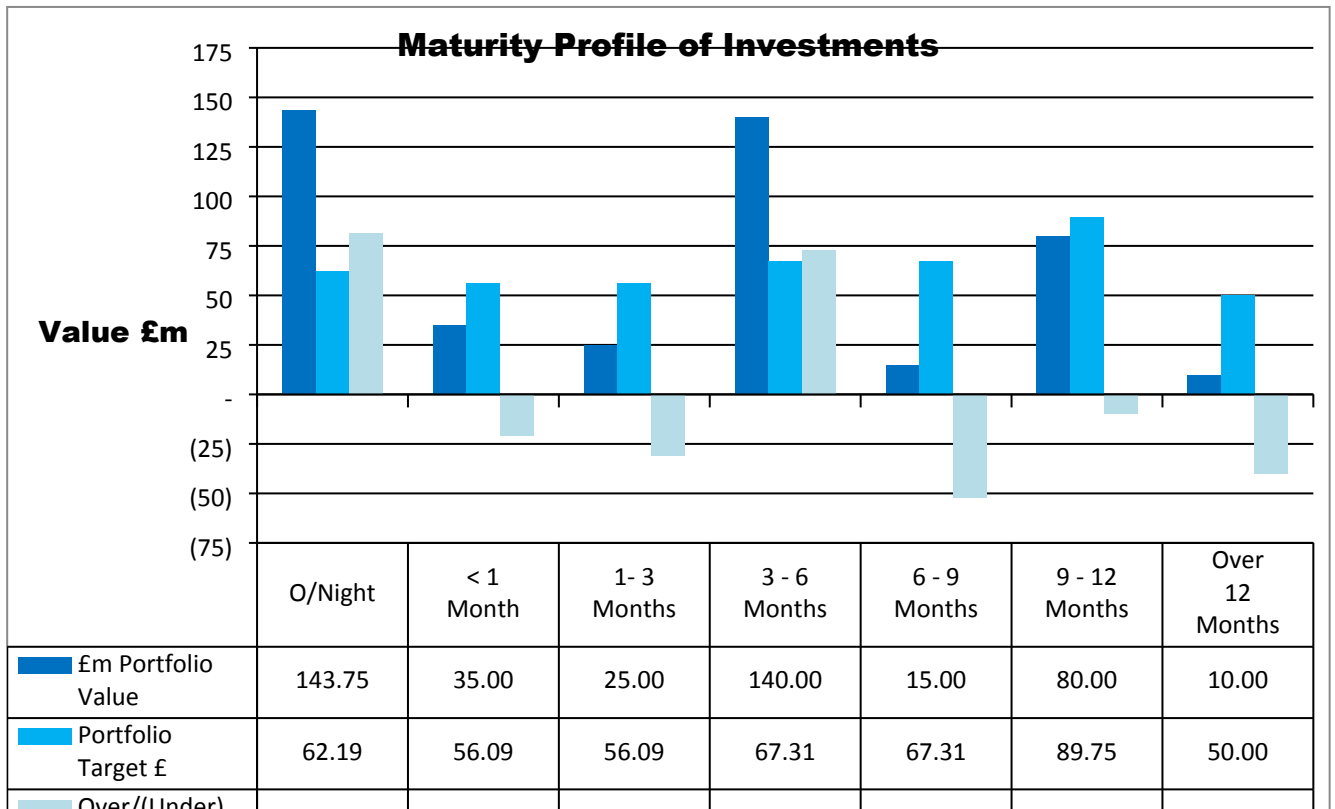
FINANCIAL SECTOR	£m	%
Banks in the UK	75.00	16.71
Building Societies in the UK	35.00	7.80
Banks in the Rest of the World	195.00	43.45
Money Market Funds	143.75	32.04
Investments Outstanding as at 30/12/2016	448.75	100.00

Chart 1 – Counterparty Exposure



3.7.2 The above Chart 1 shows the deposits outstanding with authorised counterparties as at 31 December 2016, of which 8.91% were with part-nationalised banks (RBS Groups).

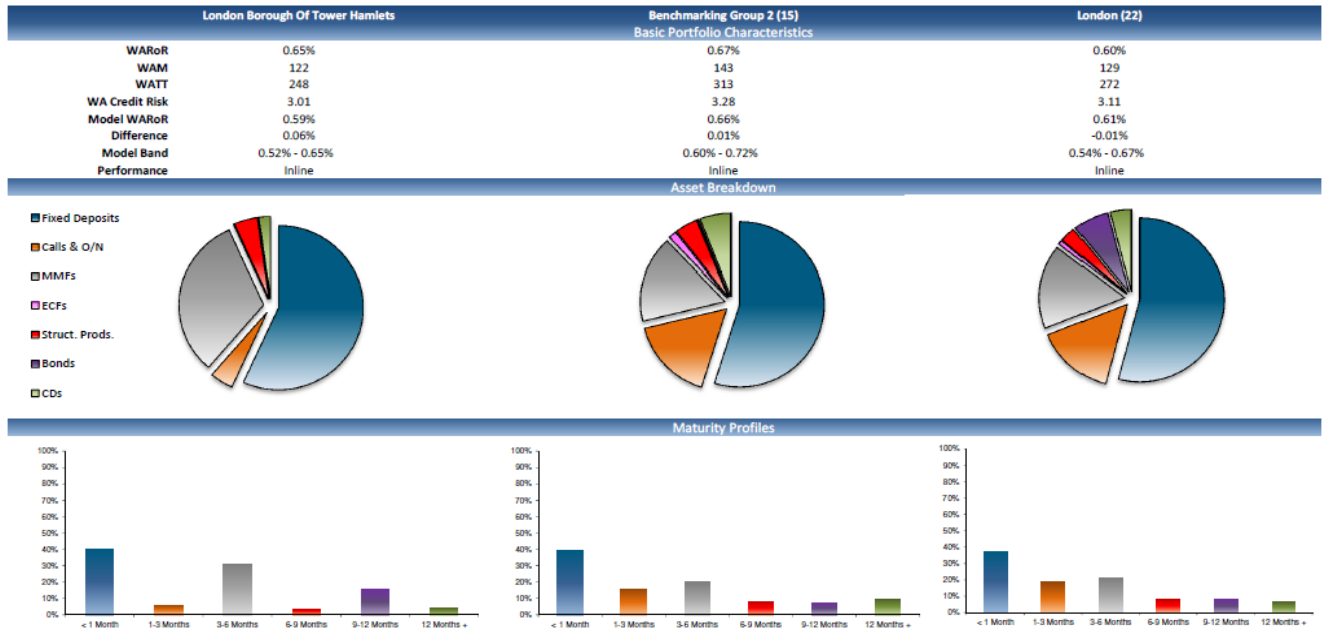
3.7.3 Chart 2 above illustrates the maturity structure of deposits at 31 December 2016; we have £143.75m as overnight deposits, and this is essentially all Money Market Funds.



3.7.4 The Weighted Average Maturity (WAM) for outstanding investment (excluding MMF) is 187 days for the month of December and including MMF is 122 days. This is the average number of outstanding days to maturity of each deal from 31 December 2016.

3.8 **INVESTMENT BENCHMARKING CLUB**

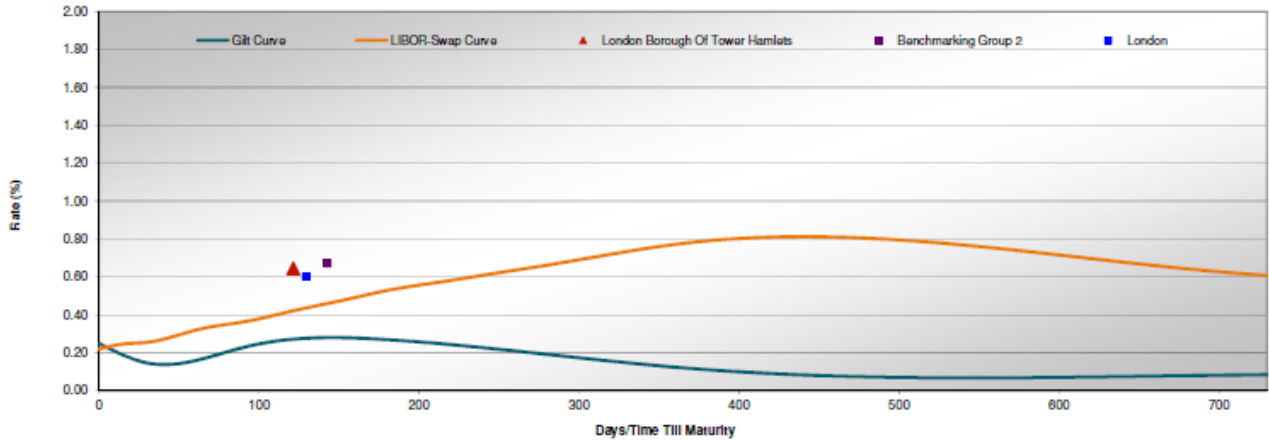
3.8.1 LBTH participates in a benchmarking club to enable officers to compare the Council's treasury management, investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 December 2016.



3.8.2 The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 15 local authorities. The weighted average rate of return (WARoR) for Tower Hamlets is 0.65% which is above the London group by 0.05% and below the benchmarking group by 0.02%.

3.8.3 The return of LBTH investment is equal with the Council's risk appetite as set out in the Investment Strategy. As the Council's investment portfolio lies between credit rating AA and AAA, that's taking moderate risk. Tower Hamlets performed slightly above the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference		Model Bands	Performance
							Gilt	LIBOR-Swap		
London Borough Of Tower Hamlets	0.65%	122	248	3.01	0.27%	0.42%	0.37%	0.22%	0.52% - 0.65%	Inline
Benchmarking Group 2	0.67%	143	313	3.28	0.28%	0.46%	0.39%	0.21%	0.60% - 0.72%	Inline
London	0.60%	129	272	3.11	0.28%	0.44%	0.33%	0.17%	0.54% - 0.67%	Inline

3.9 INVESTMENT STRATEGY UPDATE

3.9.1 Full Council approved the Investment Strategy on 24 February 2016. Officers continue to look for ways to maximise returns on cash balances within the constraints of the Investment Strategy. The Investment Strategy was developed based on an improving outlook in the money markets.

3.9.2 Wholly or partly owned government banks offer significantly higher investment rates than the DMO, but have similar levels of security based on government guarantee of their credit quality. The Council already relies on this guarantee and invests with these banks, and the strategy is to continue to have £70m money limit for RBS. This should ensure that the Council continues to receive good returns on its cash balances and that the investment strategy is optimised to support the Council’s efficiency programme.

3.10 DEBT PORTFOLIO

3.10.1 The Council’s Treasury Management Strategy Report approved in February 2016 outlined the Council’s long term borrowing strategy for the year.

3.10.2 The table below sets out the Council’s debt as at the beginning of the financial year and as at 31 December 2016. During the financial year Barclays Bank waived the option of the two LOBO loans and they can now be both classified as fixed rate funding. Total debt outstanding is £87.274m, against revised estimated CFR of £261.679m for 2016/17, resulting in an under-borrowing of £174.4m.

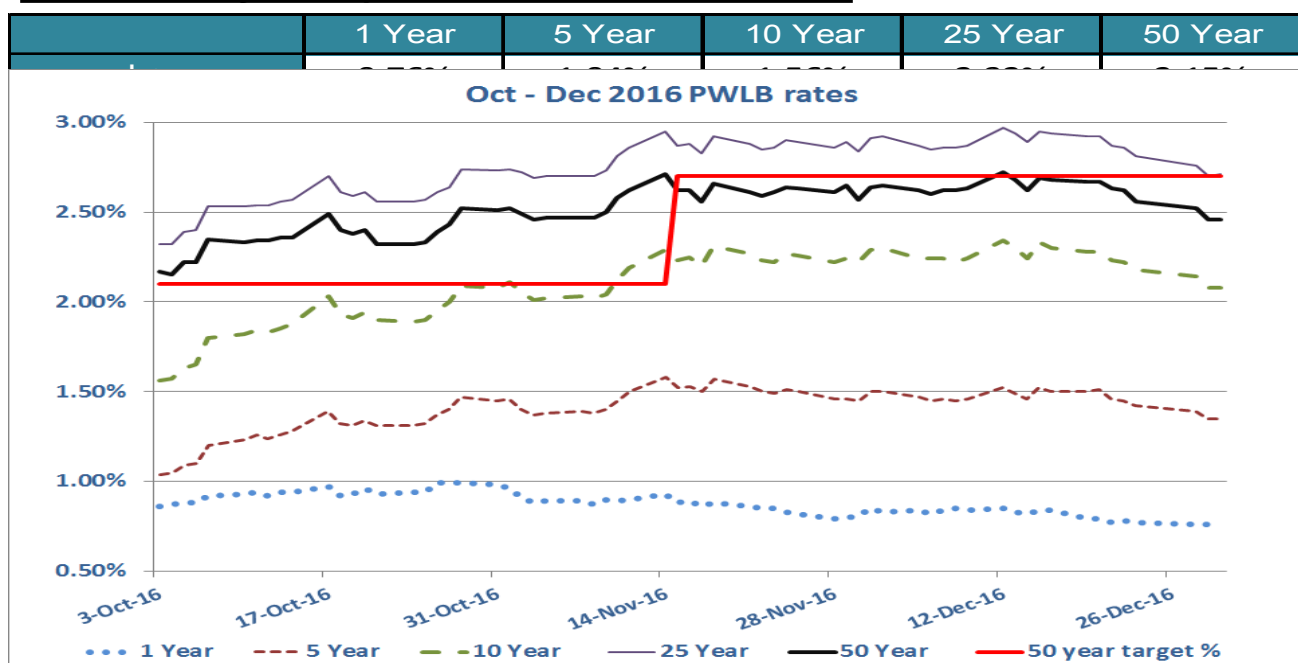
3.10.3 No borrowing has been undertaken in this financial year to date. Also no debt rescheduling opportunities have arisen during this financial year to reporting period as the cost of premiums outweighs savings that could be made from the lower PWLB borrowing rates.

	31 March 2016 Principal £'000	Loans raised £'000	Loans repaid £'000	31 December 2016 Principal £'000
Fixed Rate Funding:				
-PWLB	10,325	-	0.000	9,774
-Market	13,000	4,500	-	17,500
Total Fixed Rate Funding	23,325	4,500	0.000	27,274
Variable Rate Funding:				
-PWLB	-	-	-	-
-Market	64,500	-	4,500	60,000
Total Variable Rate Funding	64,500	-	4,500	60,000
Total Debt	87,825	4,500	4,500	87,274
CFR	226,488	-	-	261,679
Over/ (under) borrowing	(138,663)	-	-	(174,405)

3.10.4 New Borrowing - As depicted in the graph(s) below, there has been significant volatility in PWLB rates during quarter 3 as rates rose from historically very low levels at the beginning of the quarter but then fell back somewhat towards the end of December.

3.10.5 During the quarter ended 31 December 2016, the 50 year PWLB target (certainty) rate for new long term borrowing started at 2.10% and ended at 2.70%.

PWLB certainty rates quarter ended 31 December 2016



3.10.6 No borrowing was undertaken during the quarter

- 3.10.7 **Debt Rescheduling** - Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.
- 3.10.8 **Borrowing in advance of need** - This Council has not borrowed in advance of need since the beginning of this financial year to reporting quarter, 31 December 2016.
- 3.11 **Compliance with Treasury and Prudential Limits**
- 3.11.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 3.11.2 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 3.

4 COMMENTS OF THE CHIEF FINANCIAL OFFICER (s151 Officer)

- 4.1 This report fulfils the requirement to report performance of the Investment and Treasury activities to the Audit Committee and the returns received on investments to the end of December (Quarter 3), the performance of 0.65% exceeds the benchmark of 7 days LIBID rate of 0.12% and that of 6 Month LIBID rate of 0.49% but underperformed 13 Month LIBID rate of 0.72%.
- 4.2 The Council's budgeted investment return of £2.7m for 2016/17 at 0.9% for £300m average balance. The performance to date is 0.65% with average balance of £448.75m; on that basis a full year return of c£2.9m is anticipated although clearly performance in the final quarter of the year will be key. The cash balance is £148.75m more than the budgeted amount and the investment return to date is 25bps lower than the budgeted average investment return. This is due to the poor investment rates available due to global economic outlook and market sentiments, the current achievable rate for a one year deposit is 0.55%.

5. LEGAL COMMENTS

- 5.1 The Local Government Act 2003 ('the 2003 Act') provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.
- 5.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the 2003 Act. If after having regard to the

Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

- 5.3 It is a key principle of the Treasury Management Code that an authority should put in place “comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities”. Treasury management activities cover the management of the council’s investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the council to adopt the strategies and policies proposed in the report.
- 5.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The 2003 Regulations also requires the Council to have regard to the CIPFA publication “Prudential Code for Capital Finance in Local Authorities” (“the Prudential Code”) when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the council. If after having regard to the Prudential Code the council wished not to follow it, there would need to be some good reason for such deviation.
- 5.5 The Local Government Act 2000 and regulations made thereunder provide that adoption of a plan or strategy for control of a local authority’s borrowing, investments or capital expenditure, or for determining the authority’s minimum revenue provision, is a matter that should not be the sole responsibility of the authority’s executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Council.
- 5.6 The report sets out the recommendations of the Corporate Director, Resources in relation to the council’s minimum revenue provision, treasury management strategy and its annual investment strategy. The Corporate Director, Resources has responsibility for overseeing the proper administration of the council’s financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.
- 5.7 When considering its approach to the treasury management matters set out in the report, the council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t (the public sector equality duty). A proportionate level of equality analysis is required and there is information relevant to this in section 6 of the report.

- 6 **ONE TOWER HAMLETS CONSIDERATIONS**
- 6.1 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities and achieving One Tower Hamlets. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.
7. **BEST VALUE (BV) IMPLICATIONS**
- 7.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the council optimises the use of its monetary resources within the constraints placed on the council by statute, appropriate management of risk and operational requirements.
- 7.2 Assessment of value for money is achieved through:
- Monitoring against benchmarks
 - Operating within budget
- 8 **SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**
- 8.1 There are no sustainable actions for a greener environment implication.
- 9 **RISK MANAGEMENT IMPLICATIONS**
- 9.1 There is inevitably a degree of risk inherent in all treasury activity.
- 9.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.
- 9.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the council.
- 9.4 The council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the council has obtained independent advice from Capita Treasury Services who specialise in Council treasury issues.
- 10 **CRIME AND DISORDER REDUCTION IMPLICATIONS**
- 10.1 There are no any crime and disorder reduction implications arising from this report.

APPENDICES

Appendix 1 – Investments Outstanding as at 31 December 2016

Appendix 2 – Approved countries for investments

Appendix 3 – The prudential and treasury Indicators

Appendix 4 – Glossary

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

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

Brief description of “background papers”

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

Bola Tobun, x4733, Mulberry Place

Appendix A: Investments Outstanding as at 31 December 2016

Maturity	Counterparty	From	Maturity	Amount £m	Rate	
Overnight	Aberdeen MMF		MMF	25.00		
	BNP Paribas MMF		MMF	25.00		
	Goldman Sachs MMF		MMF	2.50		
	Federated MMF		MMF	25.00		
	Insight MMF		MMF	24.95		
	Morgan Stanley MMF		MMF	2.60		
	State Street		MMF	25.00		
	Standard Life MMF		MMF	13.70		
	Aberdeen MMF		MMF	25.00		
		SUB TOTAL			148.705	
<1 Month	Bank of Montreal	06/04/2016	06/01/2017	10.00	0.75%	
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74%	
	National Australia Bank	12/04/2016	12/01/2017	10.00	0.74%	
	National Australia Bank	19/04/2016	19/01/2017	5.00	0.75%	
	Bank of Montreal	19/04/2016	19/01/2017	5.00	0.74%	
	SUB TOTAL			35.00		
1 - 3 Months	Commonwealth Bank of Australia	23/02/2016	21/02/2017	5.00	0.90%	
	Heleba Landesbank Hessen-Thüringen	26/02/2016	27/02/2017	5.00	0.92%	
	Commonwealth Bank of Australia	14/03/2016	14/03/2017	10.00	0.92%	
	Skipton BS	23/03/2016	23/03/2017	5.00	1.02%	
	SUB TOTAL			25.00		
3 - 6 Months	Santander (95DN)		Call - 95N	20.00	1.10%	
	Nationwide	12/04/2016	12/04/2017	5.00	0.95%	
	Lloyds Banking Group	14/04/2016	13/04/2017	5.00	1.05%	
	Lloyds Banking Group	15/04/2016	13/04/2017	5.00	1.05%	
	Nationwide	15/04/2016	13/04/2017	10.00	0.97%	
	Nationwide	22/04/2016	21/04/2017	5.00	0.95%	
	Rabobank	26/10/2016	26/04/2017	10.00	0.52%	
	Newcastle Building Society	28/04/2016	28/04/2017	5.00	1.15%	
	Lloyds Banking Group	29/04/2016	28/04/2017	5.00	1.05%	
	Royal Bank of Scotland	05/05/2015	05/05/2017	5.00	1.45%	
	Royal Bank of Scotland	08/05/2015	08/05/2017	5.00	1.45%	
	Nottingham Building Society	09/05/2016	09/05/2017	5.00	1.03%	
	Commonwealth Bank of Australia	12/05/2016	12/05/2017	5.00	0.99%	
	Development Bank of Singapore	22/11/2016	22/05/2017	10.00	0.45%	
	Heleba Landesbank Hessen-Thüringen	03/05/2016	03/06/2017	10.00	1.01%	
	West Dunbartonshire Council	23/12/2016	23/06/2017	10.00	0.45%	
	London Borough of Croydon	23/12/2016	23/06/2017	20.00	0.45%	
		SUB TOTAL			140.00	
	6 - 9 Months	Toronto Dominion Bank	16/08/2016	15/08/2017	10.00	0.61%
		Royal Bank of Scotland	19/08/2016	19/08/2017	5.00	0.86%
	SUB TOTAL			15.00		
9 - 12 Months	Toronto Dominion Bank	13/10/2016	12/10/2017	10.00	0.59%	
	Canadian Imperial Bank of Commerce	17/10/2016	16/10/2017	10.00	0.63%	
	Canadian Imperial Bank of Commerce	17/10/2016	16/10/2017	10.00	0.63%	
	Toronto Dominion Bank	17/10/2016	16/10/2017	10.00	0.61%	
	Goldman Sachs International Bank	24/10/2016	24/10/2017	10.00	0.90%	
	Rabobank	26/10/2016	25/10/2017	10.00	0.66%	
	Goldman Sachs International Bank	14/11/2016	14/11/2017	10.00	0.93%	
	Royal Bank of Scotland	22/12/2016	22/06/2018	5.00	0.79%	
	Royal Bank of Scotland	22/12/2016	24/09/2018	5.00	0.84%	

Maturity	Counterparty	From	Maturity	Amount £m	Rate
	SUB TOTAL			80.00	
> 12 Months	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20%
	Royal Bank of Scotland	30/04/2015	30/04/2018	5.00	0.90%
	SUB TOTAL			10.00	
	GRAND TOTAL			448.75	

APPENDIX 2: Sovereign rating of countries for investments

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar
- France
- U.K.

AA-

- Belgium

Appendix 3: Prudential and Treasury Indicators

Prudential Indicators	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20
Extract from Estimate and rent setting reports	Actual	Original Estimate	Projected Outturn	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Capital Expenditure						
Non – HRA	26.620	89.475	46.572	74.178	56.997	34.900
HRA	66.359	138.315	89.345	77.720	83.444	0.000
TOTAL	92.979	227.790	135.917	151.898	140.441	34.900
Ratio of Financing Costs to Net Revenue Stream						
Non – HRA	0.84%	1.09%	0.82%	0.79%	0.92%	1.02%
HRA	4.02%	5.94%	5.23%	6.12%	10.30%	10.77%
Gross Debt and Capital Financing Requirement	£m	£m	£m	£m	£m	£m
Gross Debt	124.492	133.361	130.943	132.527	205.243	198.466
Capital Financing Requirement	262.588	287.173	264.408	259.993	325.921	324.008
Over/(Under) Borrowing	(138.096)	(153.812)	(133.465)	(127.466)	(120.678)	(125.541)
In Year Capital Financing Requirement						
HRA	5.908		0.355	1.500	6.750	6.750
Non – HRA	(6.980)	21.804	10.237	2.821	67.876	0.000
TOTAL	(1.072)	21.804	10.592	4.321	74.626	6.750
Capital Financing Requirement as at 31 March						
Non - HRA	187.005	192.310	181.143	176.459	177.063	177.699
HRA	75.583	94.864	83.266	83.533	148.858	146.309
TOTAL	262.588	287.173	264.408	259.993	325.921	324.008
Incremental Impact of Financing Costs (£)						
Increase in Council Tax (band D) per annum	24.055	24.458	29.224	32.537	31.224	30.074

Treasury Management Indicators	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20
	Actual	Original Estimate	Projected Outturn	Estimate	Estimate	Estimate
Increase in average housing rent per week	5.615	2.855	2.123	1.458	6.397	0.923

	£m	£m	£m	£m	£m	£m
Authorised Limit For External Debt -						
Borrowing & Other long term liabilities	287.588	312.173	289.408	284.993	350.921	349.008
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
TOTAL	307.588	332.173	309.408	304.993	370.921	369.008
Operational Boundary For External Debt -						
Borrowing	87.825	274.664	251.899	248.689	315.964	315.593
Other long term liabilities	38.472	37.509	37.509	36.304	34.957	33.415
TOTAL	126.297	312.173	289.408	284.993	350.921	349.008
Gross Borrowing	124.492	133.361	130.943	132.527	205.243	198.466
HRA Debt Limit*	184.381	192.000	192.000	192.000	192.000	192.000
Upper Limit For Fixed Interest Rate Exposure						
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%	100%
Upper Limit For Variable Rate Exposure						
Net interest payable on variable rate borrowing / investments	20%	20%	20%	20%	20%	20%
Upper limit for total principal sums invested for over 12 months (per maturity date)	£50m	£50m	£100m	£100m	£100m	£100m

Appendix 4 - GLOSSARY

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

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

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