

REPORT TO: <b>Audit Committee</b>	DATE <b>25 June 2013</b>	CLASSIFICATION <b>Unrestricted</b>	REPORT NO. <b>AC 004/134</b>
REPORT OF: <b>Corporate Director, Resources</b> ORIGINATING OFFICER(S): <b>Minesh Jani</b> <b><i>Head of Risk Management and Audit</i></b>		Annual Governance Statement 2012/13 <b>Ward(s) Affected: N/A</b>	

## 1. Summary

- 1.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements in line with regulation 4(2) of the Accounts and Audit Regulations 2003. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.
- 1.2 The output from the review is the Annual Governance Statement which forms part of the annual accounts and identifies areas of good governance and gaps in management of risks and control which may prevent the Council from achieving its desired outcomes.

## 2. Recommendation

- 2.1 The Audit Committee is invited to consider the process and findings set out in paragraphs 4.1 – 7.4; and
- 2.2 Agree the Draft Annual Governance Statement for the financial year 2012/13 at Appendix 3.

## 3. Background

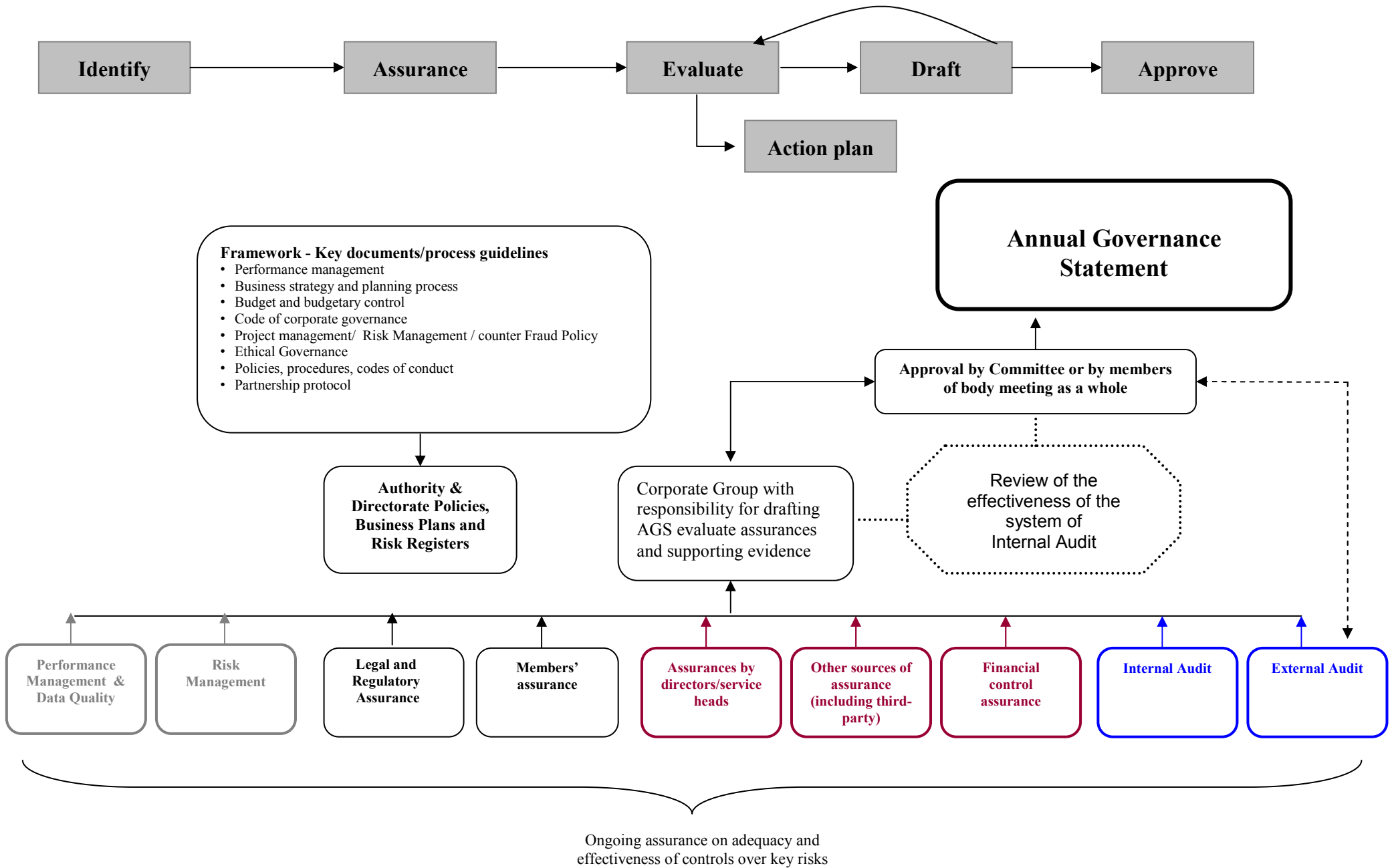
- 3.1 The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2010 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.

- 3.2 The statement will be signed by the Head of Paid Service and the Mayor. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Head of Paid Service and the Mayor.
- 3.3 The statement needs to be finalised and signed to meet the deadline for the publication of the accounts (30<sup>th</sup> June 2013).

#### **4. Reviewing the Internal Control Environment**

- 4.1 CIPFA guidance sets out a process for gathering assurance on the system of internal control. This Assurance Framework is shown diagrammatically below. The key stages are:
  - § Identify & review the internal control environment;
  - § Obtain assurances on the effectiveness of those controls;
  - § Evaluate those assurances and identify gaps in controls;
  - § Plan actions to rectify those gaps; and
  - § Draft the Annual Governance Statement.
- 4.2 The principal risks, controls and sources of assurance have been identified and considered by senior officers, which included a review of the control environment and issues raised in the 2011/12 statement.

## Assurance Framework and the production of the Annual Governance Framework



## 5. Internal Control Environment

- 5.1 An internal control checklist was developed based on CIPFA guidance. This set out three key layers in the internal control environment:
- ◆ The processes for establishing statutory obligations and organisational objectives;
  - ◆ The processes for identifying the risks to the achievement of those objectives; and
  - ◆ The key controls to manage those risks.
- 5.2 A list of key policies and processes were identified for each area based on the guidance. These are set out in appendix 1 below. Evidence has been gathered to demonstrate that these exist and findings arising from these are considered in compiling the Annual Governance Statement for 2012/13.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which is published on the Tower Hamlets website, and is dated November 2010. There have been some amendments since November 2010 and the changes will be uploaded to the published version shortly. The Council's governance arrangements have been subject to a review in 2012/13 and officers have assessed the Council's arrangements in line with the publication of the CIPFA/SOLACE Code on Corporate Governance (in June 2007). A report will be presented to the Standards Committee in July 2013 with an action plan setting out additional steps the authority would take following an assessment against the code.
- 5.4 The Council has a Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.
- 5.5 No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.
- 5.6 No gaps were found in the arrangements for **identifying key controls to manage principal risks**. The Council has a robust system of internal control. Business Continuity arrangements have been revised and tested. In 2012/13, the Business Continuity Planning team carried out a number of exercises to help prepare the authority for the Olympics, which began beginning in July 2012. The Corporate Procurement Strategy was approved by Cabinet in November 2009 and more recently, Cabinet has approved the Council's Procurement Imperatives setting out the Council's strategy around procurement.

5.7 Overall, the review found that the Council has all of the principal elements of an internal control framework.

## 6. Sources of Assurance

6.1 Having identified that the internal control framework contains the principal elements and that these can be evidenced, the principal sources of assurance were identified and evaluated. Matters arising from the review have been included within the AGS where appropriate and a summary of key sources of assurance are attached at Appendix 2.

## 7. Annual Governance Statement

7.1 The draft Annual Governance Statement is attached at Appendix 3.

7.2 The issues raised in 2011/12 are set out in the table below with an update showing their status.

Issues in 2011/12 statement	Status
<p>The annual external audit raised a number of queries relating to creditors and the year-end cut-off procedures.</p>	<p>Issues raised from the audit process have been reviewed and action taken to improve current arrangements as part of the implementation of the new finance system.</p> <p>All Directorates were asked to review all debtor and creditor balances to ensure they can be justified and that year-end balances at 31<sup>st</sup> March 2013 are current and accurate for closedown and for migration to Agresso.</p> <p><b>At closedown</b> - Directorates were asked to justify the value of all debtors &amp; creditors at 31<sup>st</sup> March 2013 to avoid doubts on accuracy of balances.</p> <p><b>Systems Development</b> – the new Accounts Payable System will include a prompt to assist users when receipting goods/services so that the risk of pre-receipting is minimised. The system will produce regular exception reports to highlight instances of pre-receipting.</p>

7.3 The penultimate section of the 2012/13 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows, in no particular order.

- Partnership structures – new arrangements are in the process of being implemented at locality / ward level and at strategic level;
- Risk identification within Communities Localities and Culture;
- Recent audit reports and the Overview and Scrutiny Committee have asked that a comprehensive review is undertaken on the management arrangements for the control and monitoring of grants;
- Pupil placement planning: expanding school provision to meet rising demand for places;
- Transition of Public Health to the Council;
- Embed the Council's use of the Virtual Desktop Infrastructure as part of the broader Smarter Working programme;
- Implementation of the Finance Systems;
- Update the local code of Corporate Governance;
- Update amendments agreed at the full Council meeting to the published constitution; and
- Enhance contract management and contract letting process.

## **8. Comments of the Chief Financial Officer**

- 8.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements as required by regulation 4(2) of the Accounts and Audit Regulations 2003. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements
- 8.2 There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

## **9. Concurrent Report of the Assistant Chief Executive (Legal Services)**

- 9.1. The council is required by regulation 4 of the Accounts and Audit Regulations 2012 to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective

exercise of the council's functions and which includes arrangements for the management of risk.

- 9.2. The council is further required to conduct a review of the effectiveness of its system of internal control at least once a year. The review findings must be considered by the council's audit committee and following the review the committee must approve an annual governance statement prepared in accordance with the proper practices in relation to internal control. The audit committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the council's constitution. The subject report is intended to discharge the council's obligations.
- 9.3. In relation to what constitutes "proper practices" it is appropriate for the council to have regard to the relevant CIPFA code of practice.
- 9.4. In approving the annual governance statement, 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 committee may take the view that a sound system of internal control will support delivery of the council's various programmes and objectives that are targeted at these matters.

## **10. One Tower Hamlets**

- 10.1 The maintenance of an effective system of internal control assists the Council to discharge its functions in accordance with its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

## **11. Risk Management Implications**

- 11.1 The review of the Council's governance arrangements has highlighted strategic risks that the authority is actively managing. The risk management framework is in place to ensure all strategic risks are reviewed monthly by the Corporate Management Team.

## **12. Sustainable Action for a Greener Environment (SAGE)**

- 12.1 There are no specific SAGE implications.

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**Local Government Act, 1972 SECTION 100D (AS AMENDED)**  
**List of "Background Papers" used in the preparation of this report**

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Brief description of "background papers"

**Contact :**

*None*

*N/a*



## Assurance Control Checklist (summary)

Step	Description	Assurance
<b>Objective 1: Establishing principal statutory obligations and organisational objectives</b>		
<b>Step 1:</b> Identification of principal statutory obligations	Constitution	Yes
	Committee terms of reference	Yes
	Scheme of delegation	Yes
	System to identify and disseminate changes in legislation	Yes
	Evidence of dissemination	Yes
<b>Step 2:</b> Establishment of corporate objectives	Community & strategic plans	Yes
	Consultation on plans	Yes
	Service planning framework	Yes
	communication strategy	Yes
<b>Step 3:</b> Corporate Governance arrangements	Local code of corporate governance	Yes
	Audit Commission Corporate Governance review	Yes
	CIPFA/Solace checklist action plan	Yes
	Committee charged with corporate governance	Yes
	Governance training for members	Yes
	Role of Chief Finance Officer	Yes
	Role of Head of Audit and Risk Management	Yes
<b>Step 4:</b> Performance management arrangements	Performance Mgmt framework	Yes
	Performance Mgmt monitoring reports	Yes
	Inspection reports	Yes
<b>Objective 2: Risk Management</b>		
<b>Step 1:</b> Risk Management strategy	Risk Management strategy	Yes
	Evidence of dissemination & review	Yes
<b>Step 2:</b> Risk Management systems & structures	Member forum	Yes
	Senior Mgmt Team reporting	Yes
	Member and officer lead	Yes
	Defined process for reviewing and reporting risk	Yes
	Corporate and departmental risk registers	Yes
	Insurance and self-insurance review	Yes
	RM training	Yes

<b>Step 3:</b>		
Risk Management is embedded	Committee reports include risk management assessment	Yes
	Risk is considered in business planning process	Yes
	Corporate risk management board	Yes
	Risk owners identified in registers	Yes
	Evidence of review of risk registers	Yes
	Risks considered in partnership working	Yes
<b>Objective 3 Identify key controls to manage principal risks</b>		
<b>Step 1:</b>		
Robust system of internal control, which includes systems & procedures to mitigate principal risks	Financial Regulations, incl. compliance with CIPFA Treasury Management Code and Prudential Code	Yes
	Contract Standing Orders	Yes
	Whistleblowing policy	Yes
	Counter fraud & corruption policy	Yes
	Codes of conduct, eg Members, Member : Officer etc	Yes
	Register of interest	Yes
	Scheme of delegation approved	Yes
	Corporate procurement policy	Yes
	Corporate recruitment and disciplinary codes	Yes
	Business continuity plans	Yes
	Corporate / departmental risk registers	Yes
	Independent assessment, by Internal & External Audit	Yes
	Audit Commission reliance on Internal Audit work	Yes
	Corporate health & Safety Policy	Yes
	Corporate complaints procedures	Yes

## Summary of reports received in or pertaining to 2012/13

Reports	Reporting period	Report date
Annual Audit plan – Audit Commission	2011/12 accounts	March 2013
Opinion on Financial Statements	2011/12	September 2012
Final Accounts Memorandum	2011/12	December 2012
Grant Claim Report	2011/12	September 2013
Annual Governance Report	2011/12	September 2012
Other		
Annual Children's Services Assessment	2011/12	November 2011
Early Years Provision – Childminder reports.	2011/12	July & November 2011 March 2012
Adoption Service	2011/12	February 2011
Annual Children's Services Assessment	2011/12	November 2011
Care Quality Commission – Assessment of Performance Report (Adult Social Services Assessment)	2010/11	December 2010

### Annual Governance Statement 2012/13

Tower Hamlets LBC (Tower Hamlets) is required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have an assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2003 as amended.

#### 1. Scope of Responsibility

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Mayor in Cabinet and the Head of Paid Service and is scheduled to be reported in June 2013.

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee received an update in July 2011 of the Council's current local governance arrangements and the report recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements. A further review is underway.

#### 2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority directs and controls its activities and through which, it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage any such risks efficiently, effectively and economically.

Tower Hamlets' governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance. Following abolition of the Standards Board for England, local arrangements have been put in place including a code of conduct for elected members with a report being presented to the Full Council on 16 May 2012. The new regime will operate from 1 July 2012.

### 3. The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

#### 3.1 Vision and Priorities

The Council's vision is to improve the quality of life for everyone living and working in Tower Hamlets. This involves helping to create a thriving, achieving community in which people feel at ease with one another, have good learning and employment opportunities, experience a higher standard of living and good health, and enjoy a safe and an attractive environment together with a wide range of cultural and leisure opportunities.

The Council (and Tower Hamlets Partnership) has refreshed the borough's Community Plan through to 2020. This has four new Community Plan themes to make Tower Hamlets:

- **A Great Place to Live** - Tower Hamlets will be a place where people live in quality affordable housing, located in clean and safe neighbourhoods served by well connected and easy to access services and community facilities;
- **A Prosperous Community** - Tower Hamlets will be a place where everyone, regardless of their background and circumstances, has the aspiration and opportunity to achieve their full potential;
- **A Safe and Cohesive Community** - Tower Hamlets will be a safer place where people feel safe, get on better together and difference is not seen as a threat but a core strength of the borough; and
- **A Healthy and Supportive Community** - Tower Hamlets will be a place where people are supported to live healthier, more independent lives and the risk of harm and neglect to vulnerable children and adults is reduced.

Running through this vision is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2012/13, 19 priorities were identified, ([http://www.towerhamlets.gov.uk/lgsl/20001-20100/strategic\\_plan\\_2013-14.aspx](http://www.towerhamlets.gov.uk/lgsl/20001-20100/strategic_plan_2013-14.aspx)). Within these broad themes, there are five strong priorities for the Council in the next 2-3 years which the Mayor has made the centre-piece of his aspirations for the borough – these are:

- Increasing the availability of affordable family sized housing and reducing overcrowding;
- Improving attainment at age 16 and above and increasing activities out of school for young people;
- Further reducing crime and anti-social behaviour;
- Tackling worklessness; and
- Further improving cleanliness and the public realm.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others
- Valuing diversity
- Learning effectively

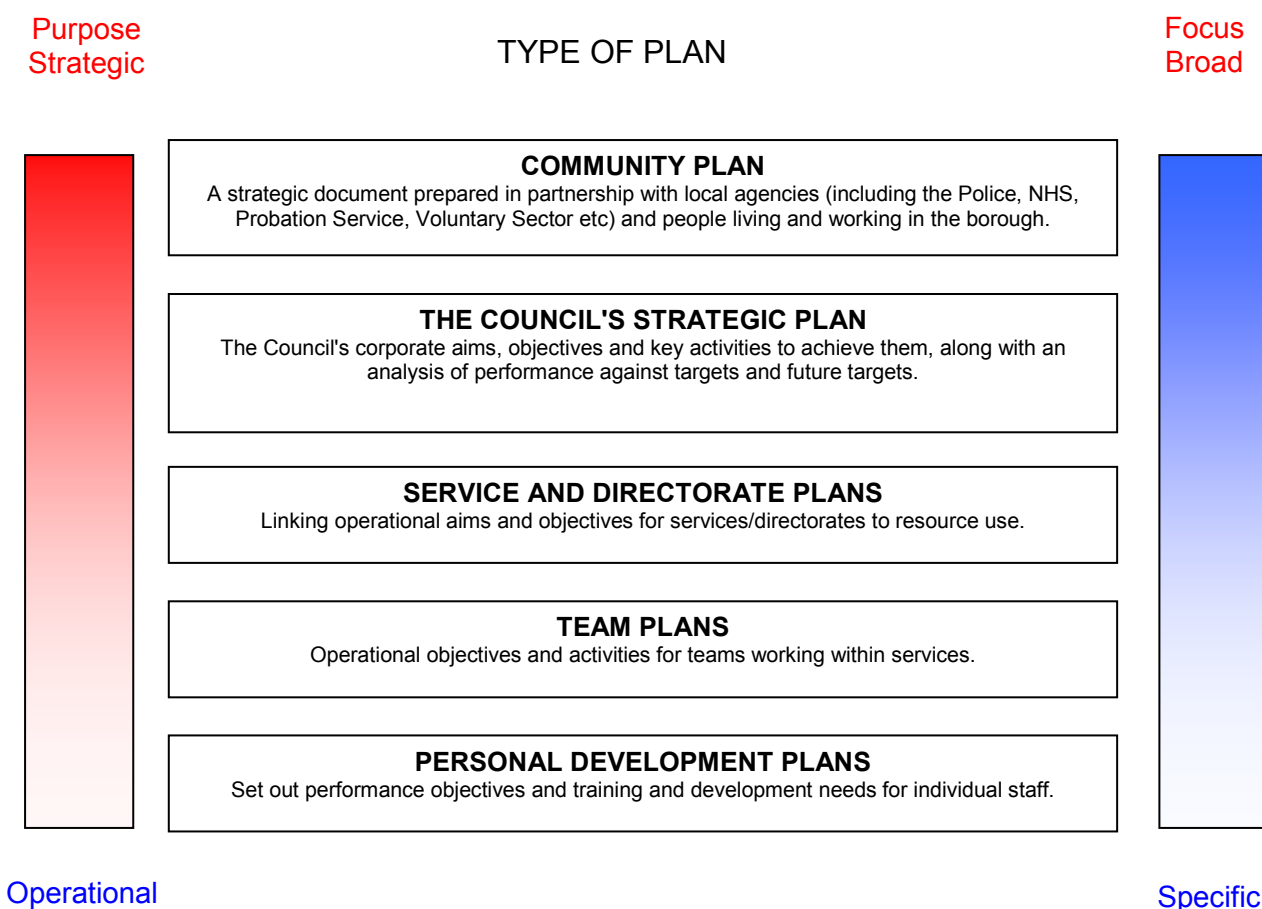
There has been significant consultation with local people to refresh the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people, culminating in the development of a three year Tower Hamlets Community Plan 2011. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The vision, themes and priorities of the Community Plan were discussed through the Tower Hamlets Partnership structures which comprise the Partnership Board and Executive, the Community Plan Delivery Groups (CPDGs), the issue-based groups and localised governance structures.

The Community Plan and the Strategic Plan fall within the Council’s Budget and Policy Framework. This requires that Overview and Scrutiny Committee are given 10 working days to comment on the draft plans, that the Mayor in Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. Both plans are subject to approval by Full Council.

**3.2 Corporate and Service Plans**

The overall planning framework is illustrated in the following diagram. As the diagram below shows, the Council aligns its Strategic Plan with the Community Plan’s and is structured around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, Overview and Scrutiny and Full Council. The Community Plan is refreshed every three years.



The Council’s vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDRs). This ensures that there is a “golden thread” that runs from the Community Plan to each individual employees’ work. This helps ensure that the vision, priorities and objectives are communicated to all levels of the organisation. Further communication takes place through the Council’s staff newsletter “Tower Hamlets Now”.

### **3.3 Performance Management**

The Council operates a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and plans; and that progress against plans and targets is monitored and evaluated at all levels.

The Council's Corporate Management Team (CMT), comprising the Corporate Directors for each service (including the Council's Section 151 officer and the Monitoring Officer), is responsible for the overall management of the Council. The CMT also has responsibility for reviewing and challenging the Council's performance and delivery of the strategic plan.

### **3.4 Council Constitution**

The Council has an agreed Constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- codes of conduct for councillors and employees; and
- members' interests and allowances.

Under the Council's constitution, the Executive is the elected Mayor, who makes decisions in respect of all executive matters which cover the operational delivery of Council services within the delegation set out under the executive powers of the constitution. In making his decisions the Mayor is supported by the Cabinet, Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as the budget approval and the setting of Council Tax. A scheme of delegation is in place to enable officers to manage their services operationally.

All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public.

Since 2011, the annual review of the constitution has floundered as members were unable to agree terms of reference for the constitution working party. However, the Council has requested a governance review of the constitution which is underway and will report back in the autumn. The General Purposes Committee will consider and comment on any proposed changes to the constitution before notification at the Full Council. The Council will consider and approve any changes proposed by the Mayor to the key strategic policies set out in article 4 of the constitution, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the medium term financial plan including the capital programme and annual revenue budget;
- the licencing policy; and
- the local development framework.

### **3.5 Codes of Conduct**

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and

processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities.

Councillors are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Councillors must also declare any gifts and hospitality with the records made public on the Council's website.

### **3.6 Rules, Regulations, Policies, and Procedures**

The Council's rules and procedure is part of four of the Council's Constitution. The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as are reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

### **3.7 Overview and Scrutiny**

During 2012/13 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and the Health Scrutiny Panel. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

The Overview and Scrutiny function reviews decisions made by the Mayor in Cabinet and raises proposals for the Mayor in Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they also consider performance monitoring information and have a key role in reviewing and challenging the mayor in Cabinet's budget framework prior to consideration at Full Council.

### **3.8 Audit Committee**

Internal Audit provides assurance and advice on internal control to the Mayor, the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control and where relevant, recommends improvements. It also supports the management of the Council in developing its systems and providing advice on matters pertaining to risk and control.

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2012/13.



### **3.9 Internal Audit**

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Corporate Director, Resources' Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2012/13, the overall the control environment is adjudged to be satisfactory.

Following the release of the Public Sector Internal Audit Standards (PSIAS), the Council's internal audit arrangements will be reviewed and a report presented to the Audit Committee in due course.

### **3.10 External Audit**

The Council's external auditors, the Audit Commission, review its arrangements for:

- preparing accounts in compliance with statutory and other relevant requirements;
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have, in their annual audit letter and their assessment, commented upon the Council's accounts, corporate governance and value for money arrangements.

### **3.11 Whistle Blowing Policy and the Complaints Procedure**

The Council has a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of a number of stages to enable the public to escalate their complaints if they are not satisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and the Standards Committee.

Members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has arrangements to support members in addressing these queries to ensure that the public receive an appropriate answer.

The Council also has a whistle blowing policy which is actively promoted with the number of whistle blows received during the year reported to the Corporate Management Team and the Audit Committee. The effectiveness of this policy and the type of issues raised are reviewed and monitored by the Audit Committee on an annual basis.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team continues to actively engage with the Audit Commission to test and improve the output from the NFI exercise.

### **3.12 Risk Management**

The Authority has a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The principles of risk management are embedded in the Council's decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the least risky option, particularly where the potential benefits to the community warrant the acceptance of a higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments.

Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Management Team. Directorate Risk Champions oversee the continued development of the Council's approach to risk management.

In June 2012, Zurich Municipal Engineering undertook a review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation. The risk team has developed an action plan which was also shared with the Audit Committee.

### **3.13 Financial Management**

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources (the Council's S151 officer). The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or will be detected.

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2012/13 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a medium-term financial plan incorporating an analysis of the financial risks facing the Council over the next three years and an assessment of the adequacy of General Fund and HRA reserves;
- regular reporting of actual expenditure and income against budgets and spending forecasts and service performance against targets;
- an annual Treasury Management and Investment Strategy including a prudential borrowing framework and associated indicators; and
- standing meetings of finance managers from across the Council (Finance Strategy Group and the Financial Reporting Technical Excellence Group) .

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority conforms to the good practice identified within the code. A more recent publication concerning the role of the Head of Audit will be similarly assessed and will be submitted to the Audit Committee in due course.

### **3.14 The Efficient and Effective Use of Resources**

Value for money and continuous service improvement are secured through a range of processes, including the application of best value principles and the carrying out of efficiency reviews. During 2012/13, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in the future. As part of its service and financial planning process, the Council set efficiency targets and brought performance data into the consideration of resource allocation. The Audit Commission's most recent assessment for value continues to be positive in the way the Council seeks to deliver value for money.

The strategic planning process ensures that resources are focused on the priorities set out in the Strategic Plan. Processes for service and financial planning are aligned and the annual budget process evaluates new requirements for resources in terms of their contribution to the objectives of the Strategic Plan. Corporate guidance on team planning requires consideration of value for money issues in developing annual objectives. Reports concerned with proposed expenditure, reviewing or changing service delivery or the use of resources contain an efficiency statement setting out how the proposals will assist towards achieving greater efficiency together with associated Equality Impact Assessments.

### **3.15 Learning and Organisational Development**

The Council has a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they are best equipped to deliver excellent public service. These include a Leadership programme, specific training relating to Recruitment and Selection, Risk Management, and computer based training.

Councillors have a member support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. For some aspects of Council work Members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

### **3.16 Communication and Engagement**

The Council publishes numerous documents on its website as well as providing a weekly paper, East End Life to keep residents up-to-date, in an informal and accessible way, on the work of the council.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council on the perception of the services it provides and the experience of services users. Further, the authority uses its citizen engagement portal to engage with a wide range of stakeholders. The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

On a more local basis the Council has a number of community forums which are used to engage with the community. Young people make up a greater proportion of the Tower Hamlets population compared to the rest of London, and the Council has thus sought to engage with them by enabling them to vote for a young Mayor of the Council. The young Mayor has a clear manifesto and is working to make a difference to young people's lives within the borough.

### **3.17 Partnerships**

The most significant partnership for the Council is the Tower Hamlets Partnership. In February 2012, the partnership structure was refreshed. In the new structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. The previously established eight local area partnerships whose role was to allow residents to influence their locality have been changed with the creation of Mayoral Assemblies. The Mayor's Assemblies are a new element of the structure and provide a mechanism for residents to engage with the Mayor, the Cabinet and cross agency public service providers at a local level.

The Council also has partnership arrangements with the local primary care trusts and the partnership has led on a number of public health programmes in recent months. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

The Council has an established Arm's Length Management Organisation, Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage its housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company's Board. Performance is monitored through a regular review process with senior council officers and elected Members. The company operates its own risk management strategy and is subject to internal and external inspections and audit in compliance with the Companies Acts.

**4. Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of governance environment, the head of audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review involved the evaluation of the key sources of assurance:

- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.
- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- The Council is subject to external audit activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control.
- Monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- The provisional outturn on the 2012/13 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Monthly monitoring of strategic risks of the Council by the Corporate Management Team and the Mayor's Advisory Board.

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective. We propose over the coming year to take steps to further enhance our governance arrangements.

**Significant Governance Issues**

The review of the effectiveness of the governance arrangements in 2012/13 has identified some areas where action is appropriate to enhance the Council's governance. The specific actions are set out below and in all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

Governance Issue	Action taken and next steps	CMT Lead
Partnership structures – new arrangements are in the process of being implemented at locality / ward level and at strategic level.	Evaluation processes specific to the new structures are planned and will be delivered over the next 12 months to determine the operational effectiveness of the new infrastructure and identify areas for improvement.	Corporate Director - Communities, Localities and Culture

## Appendix 3

Governance Issue	Action taken and next steps	CMT Lead
Risk identification within Communities Localities and Culture	Systematic review of the directorate level risks to determine corporate and directorate level risks. This review is a standing on the directorate management team agenda.	Corporate Director - Communities, Localities and Culture
Recent audit reports and the Overview and Scrutiny Committee have asked that a comprehensive review is undertaken on the management arrangements for the control and monitoring of grants.	Officers within the third sector team are currently scoping the work programme that will put in place the control environment required. It is planned to have this in place by the second quarter of this financial year.	Corporate Director - Development and Renewal
Pupil placement planning: expanding school provision to meet rising demand for places.	<p>Identification of short term primary place needs (2013/14 school year) and the development of the technical feasibility of temporary school expansion.</p> <p>Strengthening our pupil projections by engaging the Greater London Authority with projections modelling to ensure our planning is based on robust data.</p> <p>Continuation of implementation of medium term expansion plans to 2015/16.</p> <p>Early involvement of Head Teachers when Planning.</p> <p>The revision of the 2013 School Estates Strategy and whilst working with the Development and Renewal directorate; utilising and determining the viability of Council assets to assist with the strategic provision of additional primary places to 2021 school year.</p>	Corporate Director - Education Social Care and Wellbeing
Transition of Public Health to the Council.	<p>From 1 April 2013, the responsibility for delivering Public Health to the Council.</p> <p>The governance arrangements around delivery of Public Health are being reviewed and where necessary, regularised in line with Council policies and procedures.</p>	Corporate Director - Education Social Care and Wellbeing
Embed the Council's use of the Virtual Desktop Infrastructure as part of the	The Virtual Desktop Infrastructure (VDI) was rolled out as part of the Council's Smarter Working programme	Corporate Director -

## Appendix 3

Governance Issue	Action taken and next steps	CMT Lead
broader Smarter Working programme.	<p>and is widely used by staff.</p> <p>Further action is planned to enhance the resilience of VDI over the year to maximise the opportunity to provide a highly flexible and secure desktop delivery model across the Council.</p>	Resources
Implementation of the Finance Systems.	<p>The Council made a decision to replace its outmoded financial system to meet the evolving information needs of its users and the Council. The new system went live in May 2013 and working with the Council's Strategic IT partner, Agilisys, the new arrangements will be monitored to ensure that they deliver the expected benefits.</p> <p>This will include a refresh of the Council's financial procedures and instructions.</p>	Corporate Director - Resources
Update the local code of Corporate Governance.	This report is being updated annually and goes first to the Standards Advisory Committee then to the Audit Committee	Assistant Chief Executive - Legal Services
Update amendments agreed at the full Council meeting to the published constitution.	An interim refresh of the constitution has been prepared that covers updating some changes agreed by Council since 2011 and statutory changes. The governance review will update the constitution for consideration by Council by the end of the year.	Assistant Chief Executive - Legal Services and Governance Working Party
Enhance contract management and contract letting process.	The Procurement Strategy was reviewed by Cabinet and updated in the Spring. Further changes to procedures are the remit of the Competition Board who monitor procurements and review the top 20 contracts by spend annually.	Chair of Competition Board - Executive Legal Services

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvement that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

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Head of Paid Service

Date:

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Mayor

Date: