


<p><i>Non-Executive Report of the:</i>  <b>Audit Committee</b>  <i>27<sup>th</sup> September 2017</i></p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> <i>Zena Cooke - Corporate Director - Resources</i></p>	<p><b>Classification:</b>  <i>Unrestricted</i></p>
<p><b>Annual Governance Statement 2016/17</b></p>	

<p><b>Originating Officer(s)</b></p>	<p><i>Minesh Jani, Head of Audit and Risk Management</i></p>
<p><b>Wards affected</b></p>	<p><i>All wards</i></p>

## 1. Summary

- 1.1 This report updates the Audit Committee on the processes to review the governance arrangements of the Council as part of the process to produce the 2016/17 Annual Governance Statement (AGS).
- 1.2 Section 3 of this report provides a background and outline of the work undertaken to review the Council's governance arrangements. Section 4 provides an overview of all significant issues raised since 2015/16, their current status and future planned actions.
- 1.3 The updated draft version of the 2016/17 AGS is attached as Appendix 1.

## 2. Recommendation

- 2.1 The Audit Committee is asked to: -
  - o Agree the draft AGS for the financial year 2016/17 at Appendix 1.

### 3. Background

- 3.1 The Accounts and Audit Regulations 2015 require the Council to conduct an annual review of its governance arrangements and to publish an AGS with the financial statements. The Statement of Recommended Practice 2015 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.
- 3.2 The draft 2015/16 AGS was presented to the Audit Committee for approval in June 2016, to comply with the statutory deadlines regarding statement of accounts. The External Auditors are nearing concluding their audit for the financial year 2015/16. The Mayor and Chief Executive have reviewed and signed the 2015/16 statement.
- 3.3 The table in section 4 of this report captures all significant governance issues raised in 2015/16 and provides details of actions taken; the status of the governance issue and further actions planned, if any.

### 4. 2015/16 Annual Governance Statement

- 4.1 The draft Annual Governance Statement for 2016/17 is attached at Appendix 1.
- 4.2 The issues raised in 2015/16 are set out in the table below with an update showing their status.

Issues in 2015/16 statement	Current Status
1) Payments to third sector organisations outside Mainstream Grants.	Completed. The systems and processes have been improved and increased compliance work has been completed and embedded into control environment.
2) Management arrangements for the control and monitoring of grants.	Completed. Following a comprehensive review of this service and its approach to audit, a corporate grant function has been created to enhance consistency of approach to grant giving, monitoring and reporting across the Council. It is also anticipated that the function will ensure approved grant is only paid following proper due diligence of the organisations, and outcomes expected from the grant.

Issues in 2015/16 statement	Current Status
<p><b>3)</b> Strengthen controls over disposal of assets that demonstrate best value is secured by the Council.</p>	<p>Completed. Following the inspection disposal of assets is part of the Best Value Action Plan – Improvements to process have been made. Internal Audit work in this area also generated actions which have been implemented.</p> <p>The Council’s asset management strategy has been reviewed and approved by Cabinet.</p>
<p><b>4)</b> Publicity Expenditure Controls</p> <p>This issue was identified during the inspection and the Authority subsequently received directions relating to publicity expenditure.</p>	<p>Completed. A new Strategy and Protocol documents have been produced and a fully costed communications plan is now in place. An annual communications strategy detailing delivery plans and budget have been prepared.</p>
<p><b>5)</b> Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.</p>	<p>On-going. The General Purposes Committee has substantially completed its review of the Council’s constitution and the remainder of the document will be reviewed in this financial year.</p>
<p><b>6)</b> Enhance contract management and contract letting process.</p>	<p>Completed. A Procurement Strategy and accompanying procedures have been refreshed and adopted. A clear category management strategy to ensure value for money for all categories of spends and reduces costs and oversupply in place.</p> <p>Improved finance and procurement controls introduced and implemented to increase compliance with, and transparency o spend across the organisation.</p>
<p><b>7)</b> Review, and where necessary, enhance arrangements around declarations of interests.</p>	<p>Completed. A review was undertaken in 2016/17 which resulted in 99.9% of the Council staff completing their annual declaration. Internal audit have reviewed arrangements and recommended</p>

Issues in 2015/16 statement	Current Status
	further enhancements to existing controls.
<p><b>8) Review the Council's Section 106 arrangements.</b></p> <p>The Council's external auditors highlighted a number of control issues in the administration of the Council's S106 arrangements.</p> <p>An independent review of the arrangements in relation to s106 receipts and payments will be undertaken to ensure effective and robust processes, controls, monitoring and reporting arrangements are in place, in accordance with agreements and aligned with the planning consents.</p>	<p>Completed. An independent review of the arrangements in relation to s106 receipts and payments was commissioned and reported to the Audit Committee in June 2016. Recommendations from the review have been implemented.</p>

## 5. Comments of the Chief Financial Officer

5.1 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 2015. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.

5.2 There are no additional financial implications arising from the recommendations within this report.

## 6. Legal Comments

6.1. The Council is required by regulation 4 of the Accounts and Audit Regulations 2015 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.

6.2. 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 in this regard.

- 6.3. In relation to what constitutes "proper practices" it is appropriate for the Council to have regard to the relevant CIPFA code of practice.
- 6.4. 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.

## **7. One Tower Hamlets**

- 7.1 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.

## **8. Risk Management Implications**

- 8.1 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 and reported to the Corporate Management Team.

## **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.

## Draft Annual Governance Statement 2016/17

We (the Council) are 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 enables stakeholders to have 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 2015.

This statement relates to the financial year 2016/17. The Annual Government Statement for 2015/16 was presented in draft to the Audit Committee on 20 September 2016. The governance issues raised in that statement have been reviewed as part of the review of effectiveness the Council's governance arrangements for 2016/17.

### Background

Following an independent inspection in April 2014 the Council was placed under Best Value Directions by the Secretary of State for Department of Communities and Local Government (DCLG) in December 2014. The Directions included the appointment of three Commissioners with decision making powers in the areas of Grants, Procurement, Property, Election and Communication. The Council developed a Best Value Strategy and action plans with 205 activities to deliver improvements across these areas. This, alongside effective engagement with the Commissioners and DCLG, led to the transitional return of power to the Council with full control being given back and removal of Directions and Commissioners confirmed in March 2017. The table below sets out some of the achievements against the Best Value areas during the period of the original Directions.

Best Value area	Achievements
<b>Communication</b>	<ul style="list-style-type: none"> <li>• Delivered a new quarterly magazine 'Our East End';</li> <li>• Annual Communications Strategy detailing delivery plans and budget prepared;</li> <li>• Implementation of a campaigns model to support a range of high level projects; including the Mela and UK Parliamentary Election;</li> <li>• Establishment of the Statutory Notices publication scheme.</li> </ul>
<b>Elections</b>	<ul style="list-style-type: none"> <li>• Delivered a number of successful elections and the EU referendum: -</li> <li>• UK Parliamentary Election May 2015;</li> <li>• Tower Hamlets Mayoral Election June 2015;</li> <li>• Election of Mayor of London and Greater London Authority elections May 2016;</li> <li>• EU Referendum June 2016;</li> <li>• Whitechapel ward by-election December 2016;</li> <li>• UK Parliamentary Election May 2017.</li> </ul>
<b>Property</b>	<ul style="list-style-type: none"> <li>• Developed and implemented a new Community Benefit Reduction scheme for organisations based in Council buildings;</li> <li>• Implemented a Community Hub model with investment to create a range of accessible work and community spaces across the borough;</li> <li>• Property audits completed on a range of Council assets;</li> <li>• Identified and transferred vacant Council buildings to Housing Management to progress development to residential use;</li> <li>• Refreshed governance arrangements on asset management to strengthen transparency.</li> </ul>
<b>Organisational culture</b>	<ul style="list-style-type: none"> <li>• Series of engagement events completed over 6 months to develop a new set of refreshed core values with staff and members;</li> <li>• Weekly staff bulletin and regular Chief Executive/Corporate Leadership Team Roadshows to engage with staff in the improvement journey and transformation</li> <li>• New corporate senior management structure completed and majority of posts</li> </ul>

Best Value area	Achievements
	recruited; <ul style="list-style-type: none"> <li>• Whistleblowing related activities completed through Clear Up Project to address any remaining issues;</li> <li>• Independent review of whistleblowing processes and procedures completed;</li> <li>• Governance structure refreshed with review of Council Constitution;</li> <li>• Re-constituted Tower Hamlets Local Strategic Partnership with plans to develop a new Community Plan for 2018.</li> </ul>
<b>Grants</b>	<ul style="list-style-type: none"> <li>• Decision making and scrutiny of grants has been established with the Cabinet Grants Determination Sub Committee and Grants Scrutiny Sub Committee;</li> <li>• Delivery of the Mainstream Grants Programme 2015 with independent evaluation work completed;</li> <li>• Development of a comprehensive Grants Register reviewed annually to ensure a co-ordinated approach to grant management;</li> <li>• Three year Voluntary and Community Sector Strategy adopted with a three year action plan, detailing how the Council will work and support the sector.</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>• Established a clear category management strategy to ensure value for money (VFM) for all categories of spend, to reduce costs and oversupply;</li> <li>• Central contracts register linked to contract award implemented to capture all contracts above £25,000 including all procurement waivers;</li> <li>• Supply Chain Ethical Code of Conduct developed and approved to strengthen adherence to ethical standards by suppliers delivering public services on behalf of the Council;</li> <li>• Improved Finance and Procurement controls introduced and implemented to increase compliance with, and transparency of, spend across the organisation;</li> <li>• New e-sourcing system rolled out which requires all procurement opportunities to be tendered through a single e-tendering system that is integrated with the Council's financial systems;</li> <li>• Social Value Act action plan developed for implementation.</li> </ul>

In March 2017 the Secretary of State issued new Directions which will be in force until 30th September 2018. These require the Council to:

- Submit quarterly reports on all outstanding actions in the Best Value Action Plan and Best Value Improvement Plan 2017-18 to the Secretary of State. The first report was sent in June 2017;
- Set up a new Best Value Improvement Board. This met in April 2017 and is chaired by the Mayor, with cross party representation and external representatives to provide challenge to improve all Council activities; and
- Set up an independent review of achievement against the Best Value Action Plans and Best Value Improvement Plan 2017-18 to be submitted to the Secretary of State by 1st August 2018.

### 1. Responsibility of the Council

We are responsible for ensuring our business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which our functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, we are responsible for putting in place proper arrangements for the governance of our affairs and facilitating the effective exercise of our functions.

We have 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 we comply with the code and also meet the requirements of regulation 4(2) of the Accounts and Audit Regulations 2015 in relation to the publication of the Annual Governance Statement.

## **2. What is Corporate Governance Framework?**

The governance framework comprises the systems and processes, and culture and values, by which we direct and control our activities and through which, we account to, engage with and lead our community. The governance framework allows us to monitor the achievement of our 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.

Our 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 2017 and up to the date of approval of the statement of accounts.

## **3. The Council's Governance Framework**

Our governance arrangements aim to ensure that we set out and meet our objectives and responsibilities in a lawful, timely, open, inclusive and honest manner and that our use of public money and resources is safeguarded, properly accounted for and used economically, efficiently and effectively. The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

### **3.1 Vision and Priorities**

The shared vision for the borough as set out in the Community Plan is to: *'Improve the lives of all those living and working in the borough'*. The Council's Strategic Plan supports the delivery of this vision and focuses on 3 key priorities and 10 outcomes:

*Priority 1: Creating opportunity by supporting aspiration and tackling poverty*

- A dynamic local economy, with high levels of growth that is shared by residents
- Residents in good quality, well-paid jobs
- Children get the best start in life and young people realise their potential
- People are healthy and independent for longer
- Gaps in inequality have reduced and diversity is embraced

*Priority 2: Creating and maintain a vibrant and successful place*

- An improved local environment
- People feel safe and places have less crime and anti-social behaviour
- Better quality homes for all
- Communities are engaged, resilient and cohesive

*Priority 3: Working smarter together as one team with our partners and community*

- An enabling and efficient Council

These priorities are supported by an enabling objective which aims to deliver a transformed Council, making best use of resources and with an outward looking culture.

More information about our performance against the Plan and achievements in 2016/17 can be found on the Council's website.

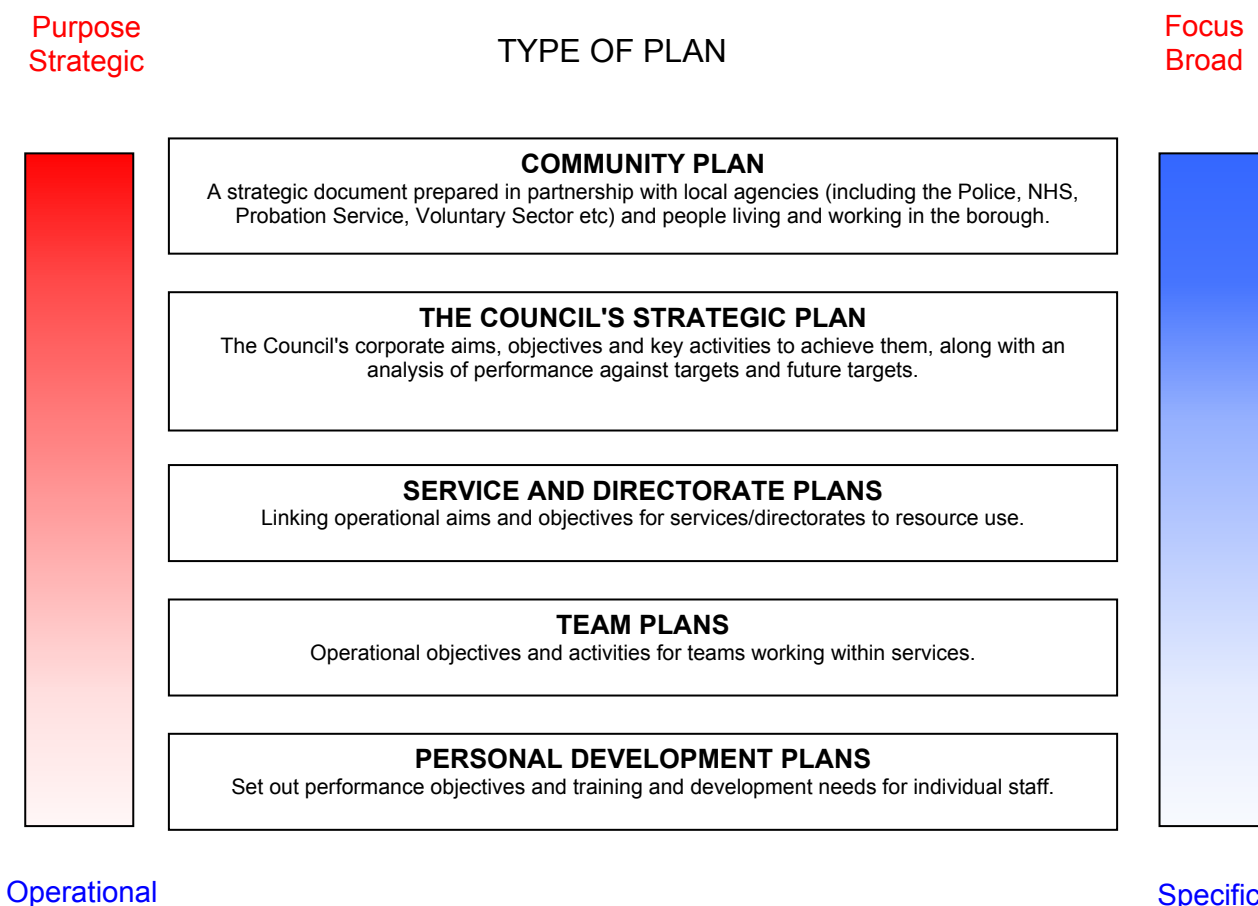
[http://www.towerhamlets.gov.uk/ignl/community\\_and\\_living/community\\_plan/strategic\\_plan.aspx](http://www.towerhamlets.gov.uk/ignl/community_and_living/community_plan/strategic_plan.aspx)



### 3.2 Corporate and Service Plans

The overall planning framework is illustrated in the following diagram. As the diagram below shows, we align our Strategic Plan with the Community Plan structure around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, at which time it is also reviewed by the Overview and Scrutiny Committee.



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

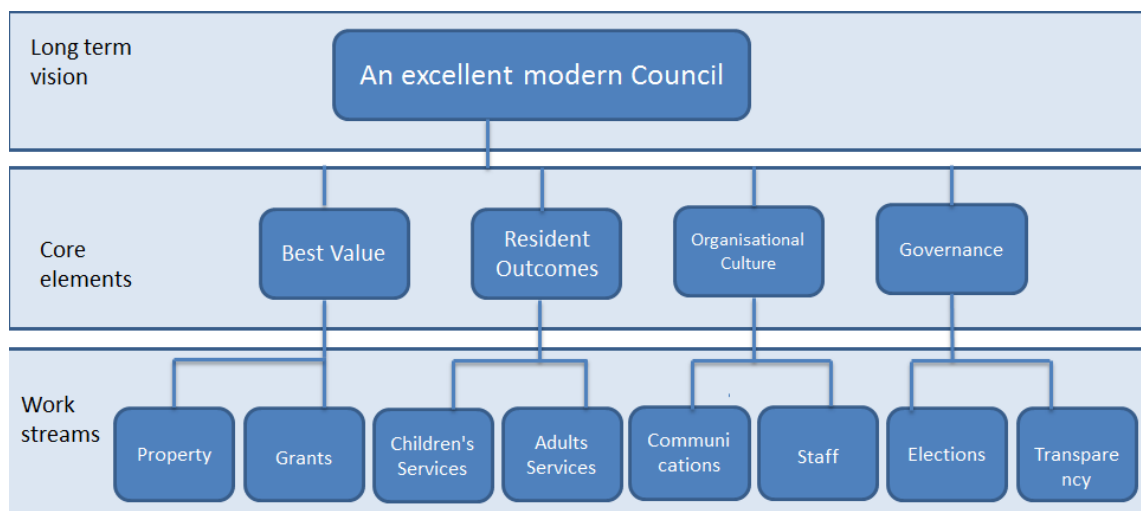
### 3.3 Tower Hamlets Improvement Framework

The Tower Hamlets Improvement Framework sets out the core elements and work streams that will develop the Council into an ‘excellent modern Council’, these being:

- delivering improved outcomes for local people;
- providing value for money;
- embracing modern technology and innovations;
- working effectively with all stakeholders including staff, local residents and partners from all sectors;
- externally recognised.

The diagram below details the Council’s long term vision; core areas of focus and a range of supporting work streams that are taking place across the organisation to develop an ‘excellent modern Council’. These work streams are supported by the following groups and boards:

- Best Value Improvement Board
- Children’s Services Improvement Board
- Adults’ Improvement Board
- Cabinet
- Overview and Scrutiny Committee
- Performance Improvement Board



Given the range of work taking place across the organisation we will share the learning and communicate this to local people and its staff and partners. We will co-ordinate improvement activities to reduce duplication and ensure learning is embraced from best practice and also undertake a Corporate Peer Challenge with the Local Government Association in 2018 to help understand progress made and areas for further development.

### 3.4 Performance Management

We operate 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.

There is a mechanism by which all Council strategic performance indicators are challenged, annually risk assessed and a sample selected for testing by the performance management team supported by internal audit.

The Council’s Corporate Leadership Team (CLT), comprising the Directors and 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 CLT also has responsibility for reviewing and challenging the Council’s performance and delivery of the strategic plan. The Cabinet and the Overview and Scrutiny Committee receive regular reports highlighting Council performance.

During 2016/17 the Governance arrangements of the Council have been considered by all the Statutory Officers of the Council as part of the scheduled CLT meetings. This has contributed to the review of effectiveness outlined in below in part 4 of the statement.

### **3.5 Council Constitution**

We have 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;
- the role of overview and scrutiny;
- the role and responsibilities of the Audit Committee;
- codes of conduct for Councillors and employees; and
- members' scheme of allowance.

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, Directors and Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as 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.

The constitution has been refreshed during 2016/17. The Monitoring Officer is also undertaking a review of the Officer Scheme of Delegation and when completed this will be appended to the constitution and published in the same timeframe.

The Council considers and approves any changes proposed 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.

### **3.6 Codes of Conduct**

We have 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 at least annually. 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. For the financial year 2016/17, 99.5% of staff completed their annual declarations of interest.

The responsibility to declare interests has also been extended to all tenderers and bidders as part of the procurement process. Periodically the audit plan contains reviews relating to compliance with the codes of conduct.

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.

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

Our rules and procedure are contained in part four of the Council's constitution. We have a duty to ensure that we act in accordance with the law and relevant regulations in the performance of our functions. We have 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, 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.

### **3.8 Overview and Scrutiny**

During 2016/17 the work of the Executive was scrutinised by an Overview and Scrutiny Committee, the Grants Scrutiny Sub Committee and the Housing Scrutiny Sub Committee. 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 its meetings it also consider performance monitoring information and has a key role in reviewing and challenging the Mayor in Cabinet's budget prior to consideration at Full Council.

An Annual Scrutiny Report detailing the work of the Overview and Scrutiny Committee, the Health, Grants and Housing Scrutiny Panels was presented to Council and noted on 19 July 2017. The work programme also involved a number of in-depth scrutiny reviews and challenge sessions focusing on the Council's Medium Term Financial Strategy and budget monitoring, Strategic Plan and Delivery Plan for 2017/18, Housing Strategy, Substance Misuse Strategy, Community Engagement Strategy, Budget Scrutiny and Monitoring and challenging Council's performance.

### **3.9 Audit Committee**

For 2016/17, the Audit Committee comprised 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 Audit Committee: Guidance for Local Authorities and Police. 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 Council's external auditor, KPMG. The Audit Committee met five times in 2016/17. The 2015/16 annual accounts received an unqualified audit opinion, but the VFM conclusion was "except for".

### **3.10 Internal Audit**

Internal audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. Internal Audit provides assurance and advice on internal control to the Mayor, the Corporate Leadership 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. 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. This report is one of the sources of assurance used in the preparation of this statement. A review of internal audit has been carried out in 2017/18 and once the report is finalised any recommendations raised from the review will be implemented during the financial year.

The Head of Audit & Risk reports quarterly, on a formal basis, to the Corporate Leadership Team on findings of audit work and investigations. He also meets as required with CLT members individually as well as other officers with roles key to the Governance Framework to discuss governance related issues. The internal audit charter, setting out the purpose and authority and responsibility of internal audit was approved by CLT and the Audit Committee in June 2017.

### **3.11 External Audit**

The Council's external auditors, KPMG:

- Review the Council's accounts to ensure that they comply with statutory requirements and that proper practices have been observed in compiling them; and
- Conclude on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In 2016/17 financial year, KPMG issued an unqualified audit opinion on the Council's financial statements. In respect of whether the authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, KPMG issued an adverse opinion.

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

The Council has a whistle blowing policy in addition to the Council's Anti Fraud and Corruption Strategy. The Anti-Fraud and Corruption Strategy was refreshed and reported to the Audit Committee at its meeting in June 2016. We have enhanced current arrangements by promoting the Council's whistle blowing arrangements by raising awareness of the Council's whistle blowing arrangements and improving reporting. The new arrangements were rolled out from May 2016. During 2016/17, we have independently reviewed the Council's whistle blow process to see if further steps can be taken to enhance current arrangements.

We also have a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of three 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 (Advisory) Committee.

The Mayor and elected 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.

### **3.13 Risk Management**

We have a Risk Management Strategy to identify and manage the principal risks which impact on achieving our 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.

We have engaged Zurich Municipal Engineering to review of the Council's risk management arrangements and to suggest enhancements to further embed risk management within the organisation and facilitating workshops with the Corporate Leadership Team and Directorate Leadership Teams. This work looked at our appetite to take risks in pursuit of our strategic objectives and assess whether organisationally we have the same understanding of our risk appetite.

### **3.14 Information Governance**

We have established two groups to oversee Information Governance as a risk area and ensure robust governance arrangements are in place and adhered to across the organisation. An Information Governance Group meets six weekly. In addition, the Information Governance Strategy Board has been established, which is chaired by the Head of Legal Services and is represented by Divisional Directors from each directorate.

### **3.15 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.

Our medium term financial strategy sets out the need to deliver financial savings to 2019/2020. Arrangements have been made to identify opportunities and for the delivery and reporting of savings to CLT and Cabinet.

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 2016/17 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a medium-term financial strategy 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.

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

As noted earlier in this statement, we have been subject to a Best Value inspection and the findings arising from the inspection are captured under review of effectiveness (Section 4). KPMG's assessment on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resource in relation to 2013/14 and 2014/15 resulted in the issue of adverse opinions in respect of the authority's arrangements to secure value for money.

The authority has developed action plans to improve value for money and seek continuous service improvement through a range of processes, including the application of best value principles and the carrying out of efficiency reviews as set out under the background section of this report.

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 in 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.

We also participate in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Cabinet Office, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team continues to actively engage with the Cabinet Office to test and improve the output from the NFI exercise. The findings were reported to CLT and the Audit Committee, the exercise is completed every two years.

We are deploying increasingly innovative approaches to tackle risks to deliver value for money services. One example is to link debtors across a number of Council activities to ensure the more efficient and effective use of Council resources in pursuit of the debts and to improve outcomes through a targeted approach.

### ***3.17 Learning and Organisational Development***

We have 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 programme 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 mandatory training to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

### ***3.18 Communication and Engagement***

We publish numerous documents on our website as well as providing a quarterly paper during 2016/17, Our East End to keep residents up-to-date, in an informal and accessible way, on the work of the Council. A review of the value for money and compliance of East End Life was requested as part of the Best Value Action Plan. Following the review, a decision was made for East End life to be published fortnightly from January 2016 and quarterly from May 2016 to bring the publication in line with the Recommended Code of Practice for Local Authority Publicity.

We also engage with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform us of the perception of services we provide and the experience of service users. Further, we use portal and a range of digital media to engage with a wide range of stakeholders. Our website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

At a local level we have 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.

The Mayor's surgeries with community groups, local businesses and others also provide direct communication and engagement with all stakeholders.

Elected members of the Council also hold regular surgeries for their wards.

### **3.19 Partnerships**

Our most significant partnership is The Tower Hamlets Partnership.

In February 2012, the partnership structure was refreshed. In the 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. At a ward level Local Community Ward Forums enable local people to engage with the Council and identify local priorities and projects for co-delivery.

Due to the Care Act and the drive towards more integrated services with the Council we have been working in partnership with the Clinical Commissioning Groups, BARTs and East London Mental Health Trust. A formal partnership called the Tower Hamlets Integrated Provider Partnership has been created and we are committed to working to achieve shared outcomes with the members of the partnership. 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.

We have 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.

### **3.20 Children's Services**

An Ofsted inspection undertaken in January and February 2017 rated our services for children in need of help and protection, children looked after and care leavers and the local safeguarding children board inadequate overall with some features requiring improvement. The report made 15 recommendations and highlighted poor frontline practice and ineffective, complacent and sometimes resistant management practices which enabled non-compliance with basic standards (including legal requirements) and in some cases left children at risk of harm. The report also highlighted the need for stronger leadership, management and governance to ensure there is robust performance management and scrutiny of children's social care.

In consultation with the Department of Education (DfE) a Children's Services Improvement Board led by an Independent Chair has been established and an Improvement Plan has been submitted to DfE in July 2017. The Board ensures that there is clear leadership of the improvement journey at corporate, political and partnership levels. The Board's key focus has been on understanding why this happened in Tower Hamlets and how to put this right through the development, implementation and monitoring of the Improvement Plan. An Operational Group has also been set up to support the work of the Board and is chaired by the Corporate Director of Children's Services. The Council is working with its DfE appointed Practice Improvement Partners from Lincolnshire and Islington Councils, to ensure that it learns from best practice in Councils that have achieved a 'good' standard in the Ofsted single inspection framework. Ofsted will be carrying out quarterly monitoring visits to ensure that its recommendations are being robustly addressed. The first of these monitoring visits took place at the end of August 2017.

The Children's Service Improvement Board will continue to focus on the themes identified in the Ofsted report looking at progress made and providing support and challenge on areas of on-going work. Quarterly progress updates will be provided to the Best Value Improvement Board and the Council's Cabinet and Overview and Scrutiny Committee.



### **3.21 Adults' Services**

The Council has set up an internal time limited Adults Improvement Board to drive up standards in relation to performance and practice in adult social care to improve outcomes for vulnerable adults in the borough. There are four broad areas of focus:

- Practice – improving safeguarding practice will be a key feature;
- Culture – adopting a strengths-based approach with a focus on prevention and demand management;
- Capacity planning – a key strand of work will be around our workforce and its development;
- Performance – will focus on performance against the key outcomes identified in the Directorate Plan and associated measures and data.

With support from an LGA Improvement Adviser, the Adults Improvement Board has utilised the ADASS Risk Toolkit to assess risk and inform the prioritisation of improvement activity. The Adults Improvement Board has developed plans to address priorities for action to ensure consistent and effective practice results in improved outcomes for vulnerable adults in the borough. This includes improving: practice, practice governance, safeguarding, workforce stability and planning, skills, quality and performance management. This Board will report on the progress against work streams at a future meeting of the Best Value Improvement Board.

## **4. Review of Effectiveness**

We have responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness has been an on-going process throughout the period and is informed by the work of the executive managers within the Council 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 financial controls.
- Performance monitoring shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- Monitoring of the 2015/16 Significant Governance Issues as well as the actions plans arising from the PwC review of best value.
- The outturn on the 2016/17 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Quarterly monitoring of strategic risks of the Council by the Corporate Leadership Team.

- Meetings with Corporate Leadership Team members who have reviewed their own directorate governance issues and actions with their Directorate Management Teams to seek input to the issues at a corporate level.

There has also been significant work to review and improve our governance arrangements and this work is considered in the process to produce this statement.

In addition to the above there have been independent assurances obtained from:

- Grant Thornton who were commissioned to independently review the organisation against the newly updated Principles of Good Governance;
- Two reviews of the Third Sector team who administer the Council's mainstream grant;
- Grant Thornton / CIPFA who reviewed the Council's Financial Management Arrangements;
- Grant Thornton review of the Council's whistle blow arrangements; and
- OFSTED review of Children's Services.

### Significant Governance Issues

All of the above sources of challenge and assurance have been considered in determining both the status of the 2015/16 significant governance issues and also what issues remains a high priority in relation to 2016/17. The significant issues and the specific actions to address that have been taken and those planned for the future are set out below and in all cases, due to the on-going monitoring of the governance framework, work is already underway to address the action points.

Each significant governance issue has an identified CLT lead who takes responsibility for progress and implementation. The actions identified within this statement form part of the performance management framework for each director and will be incorporated into their directorate performance plans.

The overall process is overseen by the Audit Committee which approves the Annual Governance Statement prior to it being signed off by the Mayor and the Chief Executive. The 2015/16 Annual Governance Statement contained eight Significant Governance Issues. As a result of the 2016/17 review all issues have been closed or superseded by new issues.

The table below details the four Significant Governance Issues relating to 2016/17, the CLT lead responsible, the actions to date and the further actions planned.

<b>Governance Issue and action noted</b>	<b>Proposed action</b>	<b>CLT Lead and expected resolution date</b>
Ofsted assessment of Children's Services	<p>We have developed an improvement board in consultation with the Department of Education for improving our services. The board is chaired by an independent Chair. An operational group has also been established to support the board.</p> <p>The Children's Services improvement board has met three times and has set a clear forward plan to focus on relevant thematic issues for each of its meeting. The improvement plan was submitted to the Secretary of State on 19 July 2017.</p>	<p>Corporate Director, Children's Services.</p> <p>March 2018</p>

Governance Issue and action noted	Proposed action	CLT Lead and expected resolution date
Council's Governance Framework	We have continued to review our constitution at the General Purposes Committee. We plan to complete this exercise by the end of the financial year.	Corporate Director, Governance March 2018
Improve Organisational Culture	We have developed a best value improvement plan for organisational culture and we recognise this is a key component in moving the Council forward. The aims of the organisational culture plan is to; ensure the culture of the organisation continues to be one which strives for continuous improvement and engages and invests in staff and ensure relationships between groups of members and between members and officers are professional, respectful, open and honest.	Chief Executive March 2018
Payments to third sector organisations as part of mainstream grant process.	For the financial year 2016/17, a total of £x was identified by the Council's external auditors as unauthorised payments as formal lease agreements were not in place for some organisations. The commissioners had stipulated grant payments should only be made where formal lease agreements are in place.  We are actively working with Third Sector Organisations to regularise lease agreements.	Corporate Director, Resources March 2018

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 progress periodically and confirm their implementation and operation as part of the process to produce the 2017/18 Annual Governance Statement.

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Chief Executive

Date:

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Mayor

Date: