

REPORT TO: <b>Audit Committee</b>	DATE <b>13<sup>th</sup> July 2010</b>	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director, Resources</b>		Annual Governance Statement 2009/10  <b>Ward(s) Affected: N/A</b>		
ORIGINATING OFFICER(S): <i>Service Head Risk Management</i>				

## 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 2009/10 at Appendix 3.

## 3. Background

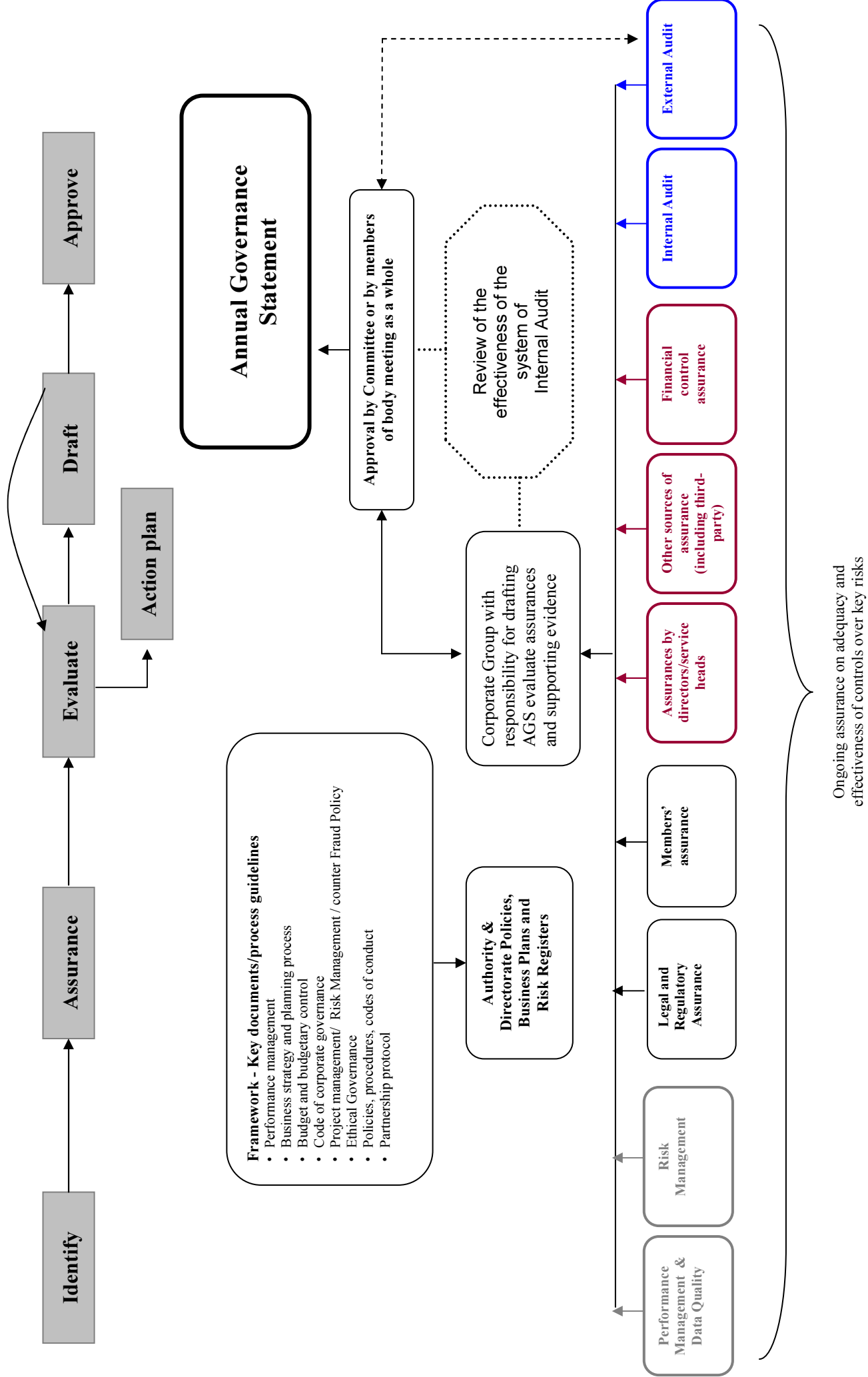
- 3.1 The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2009 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 Chief Executive and the Leader. 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 Chief Executive and the Leader.
- 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 2010).

#### **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 2008/09 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 2009/10.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which was approved in March. The Constitution has been subject to a review in 2009/10 and officers assessed the Council's arrangements following publication of the CIPFA/SOLACE Code on Corporate Governance in June 2007.
- 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 July and February 2010. The Corporate Procurement Strategy was approved by Cabinet in November 2006.
- 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 2008/09 are set out in the table below with an update showing the current status.

Issues in 2008/09 statement	Status
<p>Optimise asset management across public services to enable Council assets to be utilised in the most effective way.</p>	<p>On-going. Partners such as the Metropolitan Police and NHS Trusts are now members of the Council's Capital and Asset Management Board and are also involved in the development of the Asset Strategy Pilot in LAPS 1 &amp; 2. The Asset Strategy is now fully aligned with the service integration/localisation agenda, which fully involve partners. The Pilot is dependent on progress with localisation but is expected to be ready in draft by December 2010.</p>
<p>To further enhance particularly in relation to disaster recovery.</p>	<p>On-going. Good progress continues to be made in establishing a sound framework, but further work is required to ensure the Business Continuity Plan can respond to a critical event.</p>
<p>Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars.</p>	<p>On-going. The authority is actively working with its Arms Length Management Organisation to ensure it achieves two stars in the inspection planned for October. The Council is part of a London wide Decent Homes Task Force charged with finding ways to fund the programme in the future which is currently suspended by government. A joint Council and Tower Hamlets Homes Capital Board has been established to review the Capital Programme &amp; funding sources and funding has been identified for a pilot Decent Homes Programme covering four blocks.</p>
<p>Ensure processes for managing sickness are effective.</p>	<p>Monitoring reports are produced for PRG and CMT on a quarterly basis with PRG identifying Service Heads with the highest levels of sickness in their team and requiring them to attend to explain how they are managing absence in their service. Names of managers who fail to complete their absence returns are</p>

Issues in 2008/09 statement	Status
	<p>circulated to CMT to instruct managers in their Directorate to complete it. The Chief Executive raises any concerns with members of CMT during their 1-1s.</p> <p>Occupation Health has also been restructured on an internal rather than outsourced basis in order to ensure an improved level of service. A Healthy Workplace Manager has also been recruited to work across the Council and NHS tower Hamlets.</p>
<p>Enhance the benefits derived from implementation of SX3 and improve management of Major Works for Leaseholders.</p>	<p>Completed.</p>
<p>Arrangements for Safeguarding Children / Child Protection.</p>	<p>On-going. Children Schools and Families service continue to focus and respond to the requirements of the Laming review. There remains significant financial implications for the council regarding the increase in demands around safeguarding.</p> <p>The directorate has undertaken a range of work to assist with some of the aspects of managing this increase in demand in safeguarding work, such as development and implementation of Integrated Pathway Support team, reshaping of family support work in children centres, developing a Tower Hamlets well being model to capture in one place our multi-agency assessment, threshold, and intervention regime.</p> <p>The Tower Hamlets Local Safeguarding Children's Board (LSCB) has undertaken an interagency audit across the board aspects of safeguarding. Both the LSCB and the Children's Trust have been refocused in light of recent guidance and statute.</p>

Issues in 2008/09 statement	Status
<p>Improve information governance across the authority.</p>	<p>On-going. Project now in place.</p> <p>The Council, following extensive analysis and discussion with industry experts, has prepared a solution which will ensure that all portable media such as laptops and data sticks, are encrypted. The procurement of the product has been completed and the solution is being rolled out by a project team within ICT.</p>
<p>To model an efficiency programme to take account of the likely reduction in future funding across public sector.</p>	<p>On-going. The Council is actively working to deliver substantial savings over the next three years. Considerable work has been carried out to assess the likely level of funding gap and work is underway to identify opportunities for securing the savings. The next step is to develop individual programmes and projects which will be monitored through the relevant Board and an overall dashboard approach to monitoring the efficiency programme is also being put in place.</p>
<p>Enhance the benefits derived from effective contract management of key contracts with the private sector.</p>	<p>On-going. Contract management is included as a core module of the internal procurement training programme, and the tollgate project assurance process provides a scrutiny of contract management proposals.</p>
<p>To review and ensure the delivery of additional housing to reduce overcrowding.</p>	<p>On-going with further actions planned in 2010/11.</p>

7.3 The penultimate section of the 2009/10 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.

7.4 The CMT is invited to consider whether these represent the most significant issues affecting the Council.

<b>Governance Issue</b>	<b>Source of Assurance</b>
To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector.	Corporate risk register, risk reference ORG0009 as reported to the Corporate Management Team on 30 March 2010.
Optimise asset management across public services to enable Council assets to be utilised in the most effective way.	Governance issue raised in 2008/09 and being progressed in 2009/10.
To further enhance the authority's Business Continuity Plans, particularly in relation to disaster recovery	Governance issue raised in 2008/09 and being progressed in 2009/10.
Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars	Corporate risk register, risk reference ORG0005 as reported to the Corporate Management Team on 30 March 2010.
Arrangements for Safeguarding Children / Child Protection	Corporate risk register, risk reference ORG0015 as reported to the Corporate Management Team on 30 March 2010.
Improve information governance across the authority	Corporate risk register, risk reference ORG0014 as reported to the Corporate Management Team on 30 March 2010.
Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts	Internal Audit work 2009/10.
Termination of Chief Officer's employment	Directorate assurance statement for Chief Executive directorate.
To review and ensure the delivery of additional housing to reduce overcrowding	Governance issue raised in 2008/09 and being progressed in 2009/10.
Pupil Place Planning - expanding school provision to meet rising demand for places.	Directorate assurance statement for Children Schools and Family.



## Internal 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
<b>Step 4:</b> Performance management arrangements	Performance Mgmt framework	Yes
	Performance Mgmt monitoring reports	Yes
	BVRs and benchmarking	Yes
	Inspection reports	Yes
<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 2009/10

Reports	Reporting period	Report date
Annual Audit and Inspection plan	2009/10 accounts	June 2010
Opinion on Financial Statements	2009/10	September 2009
Approach to Value for Money	2009/10	November 2009
Use of Resources	2008/09	January 2009
Value for Money Conclusion	2009/10	September 2009
Data Quality	2009/10	Feb 2009
Final Accounts Memorandum	2009/10	Jan 2010
Grant Claim Report	2009/10	Feb 2010
Annual Governance Report	2009/10	September 2009
Other		
Ofsted – Childrens Services	2009/10	February 2010
Care Quality Assessment – Adult Social Care	2009/10	February 2010

### Annual Governance Statement

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.

### 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 Leader of the Council and the Chief Executive.

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 members received a report in October 2007 assessing the current local governance arrangements and recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements.**

### 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 ongoing 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 them efficiently, effectively and economically.

Tower Hamlets' governance framework is established through its systems, processes, cultures and values. These are regularly reviewed. The governance framework has been in place at Tower Hamlets for the year ended 31 March 2010 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.

### The Governance Framework

#### *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;
- A prosperous community;
- A safe and supportive community; and
- A healthy community.

Running through this 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 2009/10, 15 priorities were identified around all five Community Plan themes.

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

Over the last year, there has been significant consultation with local people through Local Area Partnership (LAP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. 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) and the Local Area Steering Groups. The Council's Corporate Management Team (CMT) and the Cabinet and other members have also had contributed to the Vision and Priorities for the Community Plan.

As the diagram below shows, the Council aligns its Strategic Framework with the Community Plan. The Council's Strategic Plan for 2009/10 is organised around the themes, priorities and objectives of the Community Plan and shows how the Council both lead and contribute to the delivery of the Community Plan.

The Tower Hamlets Partnership Community Plan and the Council's 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 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.

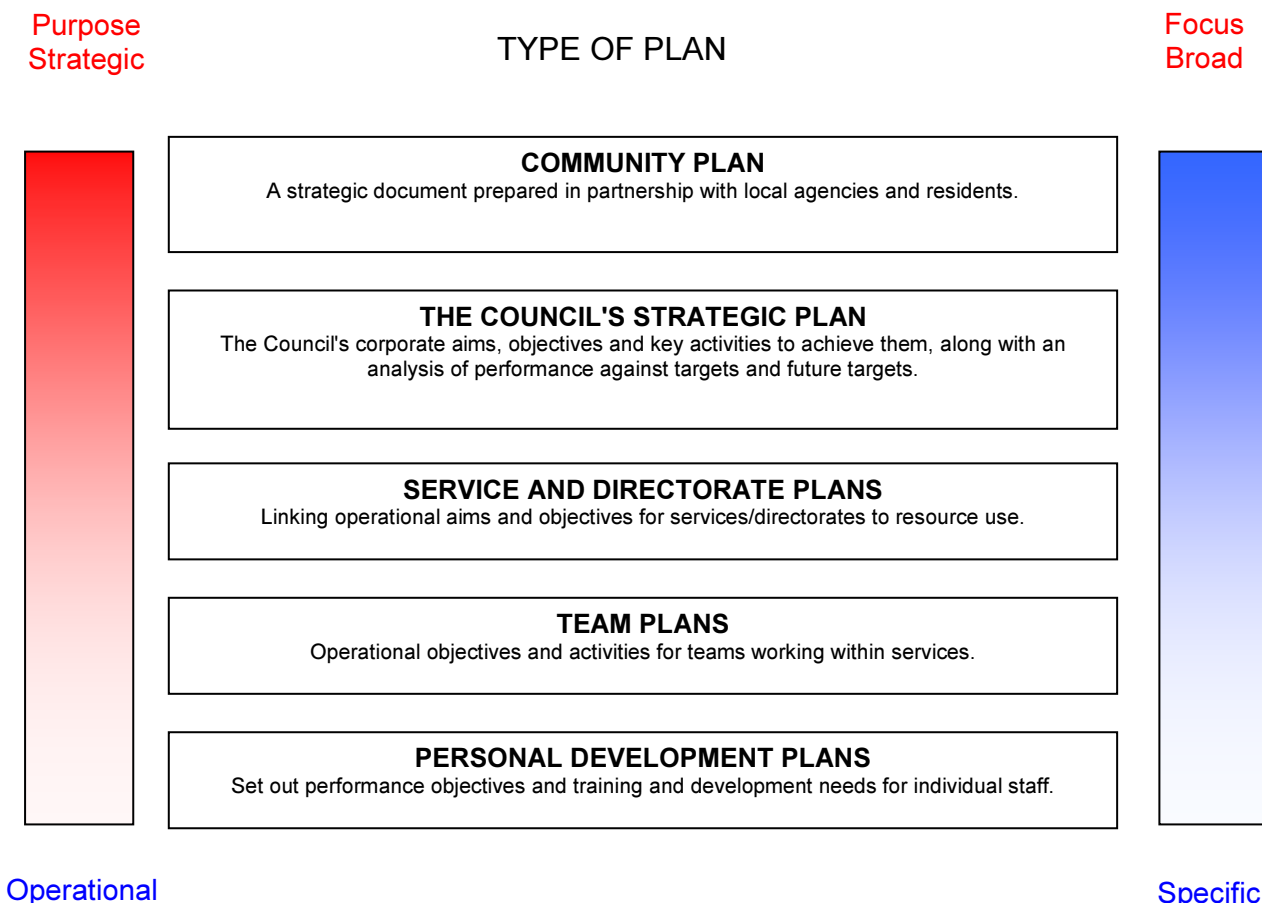
The Council's vision, priorities and objectives are used to structure all directorate, service plans and Personal Development Plans (PDRs). This ensures that there is a "golden thread" that runs from each individual's work through to the Community Plan. This makes sure that the vision, priorities and objectives are communicated at all levels of the organisation. Further communication takes place through the Council's staff newsletter "Pulling Together".

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

**Quality of Service**

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 objectives; and that progress against plans and targets is monitored & evaluated at all levels.

The overall planning framework is illustrated in the following diagram.



**Constitutional Matters**

The Council has an agreed Constitution that details how the Council operates, how decisions are made and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is reviewed annually.

The constitution also includes sections on standing orders, financial regulations and conduct of meetings.

During the year the Constitution was reviewed to ensure that it kept abreast of changes within the Council. The Council approves and keeps under regular review all of the strategic policies which it reserves for its own consideration, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the capital programme and revenue budget;
- the housing strategy; and
- the local development framework.

The Executive is responsible for key decisions and comprises a Leader and a Cabinet, who are all appointed by the Council. 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. All decisions must be in line with the Council's overall policy and budget framework and any decisions the Executive wishes to take outside of that framework must be referred to the Council as a whole to decide. The Council operates a system of delegated authority whereby the Executive delegates certain decisions to the Chief Executive and Senior Officers. This is set out in the scheme of delegation.

During 2009/10 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

In a referendum over the borough having a directly elected Mayor, held on 6 May 2010, Tower Hamlets electorate voted for the mayoral model to govern the business of the Council. An election to appoint a mayor will take place in October 2010 and the Council's constitution and accompanying instructions and guidance will be updated to reflect the new model.

### ***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 that officers are not inappropriately influenced. These codes and processes are made available to staff at their induction, they are on the intranet and training is available to ensure every staff member understands their responsibilities.

Members are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Members must also declare any gifts and hospitality. Members' declarations and gifts and hospitality records are made public through the Council's website. As part of the adoption of the new members code a number of protocols were reviewed including the one concerning member and officer relationships in 2008/09. The Standards Committee was advised of the change and the revisions that were made to the code.

### ***Compliance with Policies, Procedures, Laws and Regulations***

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 is 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.

### ***Effective Audit Committee***

Internal Audit provides assurance and advice on internal control to the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control within systems and recommends improvements. It also supports the management of the Council in developing systems, 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 group in proportion of their representation on the Council. The Audit Committee's remit is around the Council's systems of internal control, risk management and governance, as outlines 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 statement of accounts and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2009/10 as planned.

### ***Whistle Blow and the Complaints Procedure***

The Council has a recognised complaints process. This comprises a number of stages to enable the public to escalate their complaints if they are unsatisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and Members.

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.

Within the Council the whistle blowing policy is actively promoted and annually, there are a number of whistle blowing events reported. The effectiveness of the policy and the type of issues raised are reviewed and monitored by the Council's Audit Committee on an annual basis.

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

### ***Risk Management***

The Authority has embedded a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The Strategy recognises that the Council may not always adopt the least risky option, where the potential benefits to the community warrant the acceptance of a higher level of risk. All reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved.

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.

### ***Financial Management***

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources. 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 would be detected.

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2009/10 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a risk financing strategy;
- medium-term financial plans and projections;
- regular reporting of actual expenditure and income against budgets and spending forecasts;
- targets to measure financial and other performance;
- clearly defined prudential borrowing framework and indicators; and
- standing meetings of finance managers from across the Council.



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 confirms to the good practice identified within the code.

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

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2009/10, the Council continued work on its efficiency programme and has been making plans to manage with significantly reduced financial resource in future. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation. The Audit Commission's most recent assessment for value reported an improvement in the way the Council seeks to delivery 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.

### ***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 can deliver excellent public service. These include a Leadership programme, specific training relating Recruitment and Selection, Risk Management, and other computer based training.

Members have a 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. The Audit Committee and Standards Committee have training as part of their agendas and it is intended that in future they will agree specific training plans for themselves annually. 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.

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

The Council publishes numerous documents on its website as well as providing a weekly newspaper, East End life to keep members of the public up to date with what is going on.

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 of the population's opinion on the services provided, their experience of services and to influence the Council's priorities for the future.

On a more local basis the Council has a number of community forums which are used to engage with the community. Tower Hamlets has a greater proportion, compared to the rest of London, of young population and has thus engaged with the young people of Tower Hamlets by enabling them to vote for a young Leader of the Council. A number of local residents put themselves forward and a vote was held to elect a Leader to represent the young people of Tower Hamlets. The young Leader has a clear manifesto and is working to make a difference to young people's lives within the borough.

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.

### ***Partnerships***

The most significant partnership for the Council is the Tower Hamlets Partnership. The partnership has three stands; the eight local area partnerships which allows residents to influence their locality; the Community Plan Delivery Groups for each of five key themes in the community plan and the Partnership Executive and Board, which has responsibility for developing the overall strategy and for ensuring plans are delivered. The Partnership has its own constitution and its Members are also subject to a code of conduct and make declaration of interest at meetings. The Tower Hamlets Partnership is responsible for delivering the vision and aspirations for the Community in the medium and long term, and the Local Area Agreement (LAA) agreed for the period 2008 - 2011 include key targets and indicators following negotiation between the Tower Hamlets and Central Government.

The Council also has important partnership arrangements with the local primary care trusts. 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.

### ***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 was conducted in accordance with the assurance framework and therefore focussed on the risks to the fulfilment of the Council's principal objectives, as set out in the Strategic Plan, and the controls in place to manage those risks. The review of the effectiveness of the internal control framework 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 and effective.
- 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 a range of external audit and inspection 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. The independent assessment by six inspectorates as part of the Comprehensive Area Assessment identified one notable practice around Engaging and Empowering Local People. This measures the extent to which people believe they are able to influence decisions affecting their area. The assessment did not identify any significant concerns. The results of inspections of individual services continue to show improvements whilst Children's Services was rated as "Performs Excellently" by Ofsted in its report dated February 2010. Adult Social Care Services was rated as "Performing Excellently" for Increased Choice and Control for Older People, and as Performing Adequately in Safeguarding Adults, also published in February 2010.
- 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 2009/10 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

### ***Overview and Scrutiny***

The Overview and Scrutiny function reviews decisions made by the cabinet and raises proposals for the 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 consider performance information. They also have a

key role in reviewing and challenging the Cabinet's budget framework prior to consideration at full Council.

### **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 Executive Director of Resources' S151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Service Head, Risk Management and Audit 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 2009/10, the overall the control environment is adjudged to be satisfactory.

### **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 performance management arrangements.

### **Significant Governance Issues**

The review of the effectiveness of the governance arrangements in 2009/10 has identified some areas where action is appropriate to enhance the control environment and ensure continuous improvement. The areas are set out below. 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.

<b>Governance Issue</b>	<b>Action taken and next steps</b>	<b>CMT Lead</b>
To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector.	<p>The authority has identified a savings target of £18m a year the next three years arising from the Government action likely to be necessary to tackle the UK's public spending deficit. This is much greater than the target in previous years and the incremental approach adopted in the past does not lend itself to this scale of problem.</p> <p>The authority has established a Service Options Review which will examine the strategic opportunities for delivering the savings. A clear savings target has been set of £55m over the next three years.</p> <p>Directorates have been challenged to identify savings to the scale required and this information has been fed into</p>	Corporate Management Team

## Appendix 3

Governance Issue	Action taken and next steps	CMT Lead
	<p>the review. The Review will go on to supplement the proposals brought forward by Directorates and identify strategic savings opportunities, likely to include some of a transformational nature, which will be governed through the Council's Transformation Board.</p> <p>A key component of the programme will be to ensure that a system is in place to secure the financial benefits of the transformation in the form of cashable savings.</p> <p>{Priority 1.2 (5) Strategic Plan and priority 5 – Resource's Directorate Plan}.</p>	
<p>Optimise asset management across public services to enable Council assets to be utilised in the most effective way.</p>	<p>Partners such as the Metropolitan Police and NHS Trusts are now members of the Council's Capital and Asset Management Board and are also involved in the development of the Asset Strategy Pilot in LAPS 1 &amp; 2. The Asset Strategy is now fully aligned with the service integration/localisation agenda, which fully involve partners. The Pilot is dependent on progress with localisation but is expected to be ready in draft by December 2010 {Priority 6 – Strategic Plan}.</p>	<p>Corporate Directors, Resources and Development and Renewal</p>
<p>To further enhance the authority's Business Continuity Plans, particularly in relation to disaster recovery.</p>	<p>The authority has a framework for business continuity planning and management. However, further enhancements will be made to ensure the authority can respond to a catastrophic disaster and its ability to access all essential IT applications {Priority Res011 – Resources Directorate Plan}.</p>	<p>Corporate Director, Resources and Corporate Director, Communities, Localities and Culture</p>
<p>Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars.</p>	<p>Following a mock inspection of the Council's Arms Length Management Organisation (Tower Hamlets Homes) in June 2009 a Service Improvement Plan was developed. This was refreshed in February 2010 and agreed with the Council as one of the suite of documents which govern the operations of the ALMO under the terms of the Management Agreement.</p>	<p>Corporate Director, Development and Renewal</p>

Governance Issue	Action taken and next steps	CMT Lead
	<p>This allows the ALMO and the Council to focus on those areas where there is the greatest risk at inspection and where the need for a stronger customer focus is most intense.</p> <p>The clienting procedures within the Council have also been strengthened in recognition of the importance of the need to drive change in the ALMO</p> <p>As a Round 6 ALMO funding for this scheme is not fully committed at this stage. Discussions continue with the HCA and the need for such investment has been prioritised in the draft Borough Investment Plan which will be agreed with the HCA by September 2010 Other regeneration opportunities have been progressed and the Ocean estate scheme has achieved start on site and 40Million funding from HCA. {Priority 14 – Strategic Plan and 2.1.4.2 Directorate Plan}.</p>	
<p>Arrangements for Safeguarding Children / Child Protection.</p>	<p>Following national scrutiny of safeguarding issues, and the publication of Laming report, the Council has reviewed referral and safeguarding arrangements with social care and where necessary strengthened current arrangements and adopt the DCFS / Laming recommendations.</p> <p>Some key recommendations have already been implemented, for example the appointment of an independent chair for the Safeguarding Board, carrying out audit and assurance on cases within Children's Services and enhancing the use of Framework 1, the Council's case management system. The next steps involve implementing all appropriate remaining recommendations, in particular, assessing potential increase in social worker requirements and taking heed of further guidance. {Priority 60, Strategic Plan}.</p>	<p>Corporate Director, Children Services</p>

## Appendix 3

Governance Issue	Action taken and next steps	CMT Lead
<p>Improve information governance across the authority.</p>	<p>Following loss of personal data by an employee last year, a number of steps were taken to militate against future losses and to protect the information held by the Council. Some of the initiatives already taken include the use of BIOS passwords. A Project is now in place to implement full encryption for all mobile devices. This will be implemented for the most vulnerable devices first and all remaining devices by September 2010 {Priority Res011 – Resources Directorate Plan}.</p>	<p>Assistant Chief Executive (Legal)</p>
<p>Directorate operational guidance on contract management; retention and filing of contract documentation &amp; Unauthorised extension of contracts.</p>	<p>Guidance is already available through the contracting toolkit. Work is underway to broaden and strengthen our approach and this will be submitted to Competition Board for approval in September. A proposal for a standard self-assessment approach to contract management is currently being developed, for approval by Competition Board and subsequent roll-out across the Council.</p> <p>Systems have been improved for recording and filing contract documentation. Work is underway with Legal for setting up a repository of contract documents. This will be finalised by end June 2010.</p> <p>Unauthorised contract extensions have largely been addressed through revision of the Procurement Procedures in 2009. The updating of the contracts register, which will be completed by end May 2010, will provide the assurance to prevent unauthorised extensions.</p> <p>{Priority 8 – Resource's Directorate Plan}.</p>	<p>Corporate Management Team.</p>
<p>Termination of Chief Officer's employment.</p>	<p>Responding to the Audit Commission's recommendation the process will be clarified by introducing a protocol into the Constitution by July 2010. This makes the responsibilities of officers and members clear when the termination of a Chief Officer's</p>	<p>Assistant Chief Executive – Legal Services</p>

Governance Issue	Action taken and next steps	CMT Lead
	employment is being considered. {Priority within Chief Executive Directorate Plan}.	
Pupil Place Planning - expanding school provision to meet rising demand for places.	<p>Action has been taken to identify short term primary place needs (for 2010/11 School Year) and develop technical feasibility of temporary school expansion. The pupil projections model has also been enhanced to ensure pupil place planning is based on robust data.</p> <p>Work in underway with the Development and Renewal directorate to integrate two planning models to provide one single comprehensive projection model by September 2010 and have in place Strategic provision of additional primary school places to 2019/20 school {Priority CYPP, ECS – Children Schools Family Directorate Plan}.</p>	Corporate Director, Children Services
To review and ensure the delivery of additional housing to reduce overcrowding.	The council is committed to providing high quality housing in line with the needs of the community. An Overcrowding Strategy has been agreed, which involves all partner RSLs in the borough as well as Tower Hamlets Homes. A programme has been developed to acquire and new build properties to reduce overcrowding {Priority 2.1 (1) – Strategic Plan}. A Right to Buy Buyback programme purchased more than 80 properties of three beds or larger, and despite the recession the Affordable Housing new build target (NI155) was achieved in 2009/10. Responsibility for addressing overcrowding within the Council's own stock has also been formalised with the Council dealing with those tenants who are two or more bedrooms short of need and Tower Hamlets Homes arranging a programme of visits to tenants who are 1 bedroom short of need using an Overcrowding Toolkit	Corporate Director, Development and Renewal.

Governance Issue	Action taken and next steps	CMT Lead
	which has been developed to standardise the approach to overcrowding, {Priority 15 – Strategic Plan}.	

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 address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements 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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 Chief Executive

Date:

.....  
 Leader

Date: