| REPORT TO: | DATE | CLASSIFICATION | REPORT NO. | AGENDA NO. |
|---|---|---|---|---|
| Audit Committee | **26 June 2012** | **Unrestricted** | | **8.2** |
| REPORT OF:<br><br>**Corporate Director, Resources**<br><br>ORIGINATING OFFICER(S):<br><br>**Minesh Jani**<br>*Head of Risk Management and Audit* | | Annual Governance Statement 2011/12<br><br>**Ward(s) Affected: N/A** | | |

## 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

**The Audit Committee is recommended to: -**

2.1 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 2011/12 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 2011

requires that the AGS be approved by the committee approving the Annual Financial Report (including the Statement of Accounts), which is the Audit Committee.

3.2    The statement will be signed by the Chief Executive and the Mayor. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Chief Executive and the Mayor.
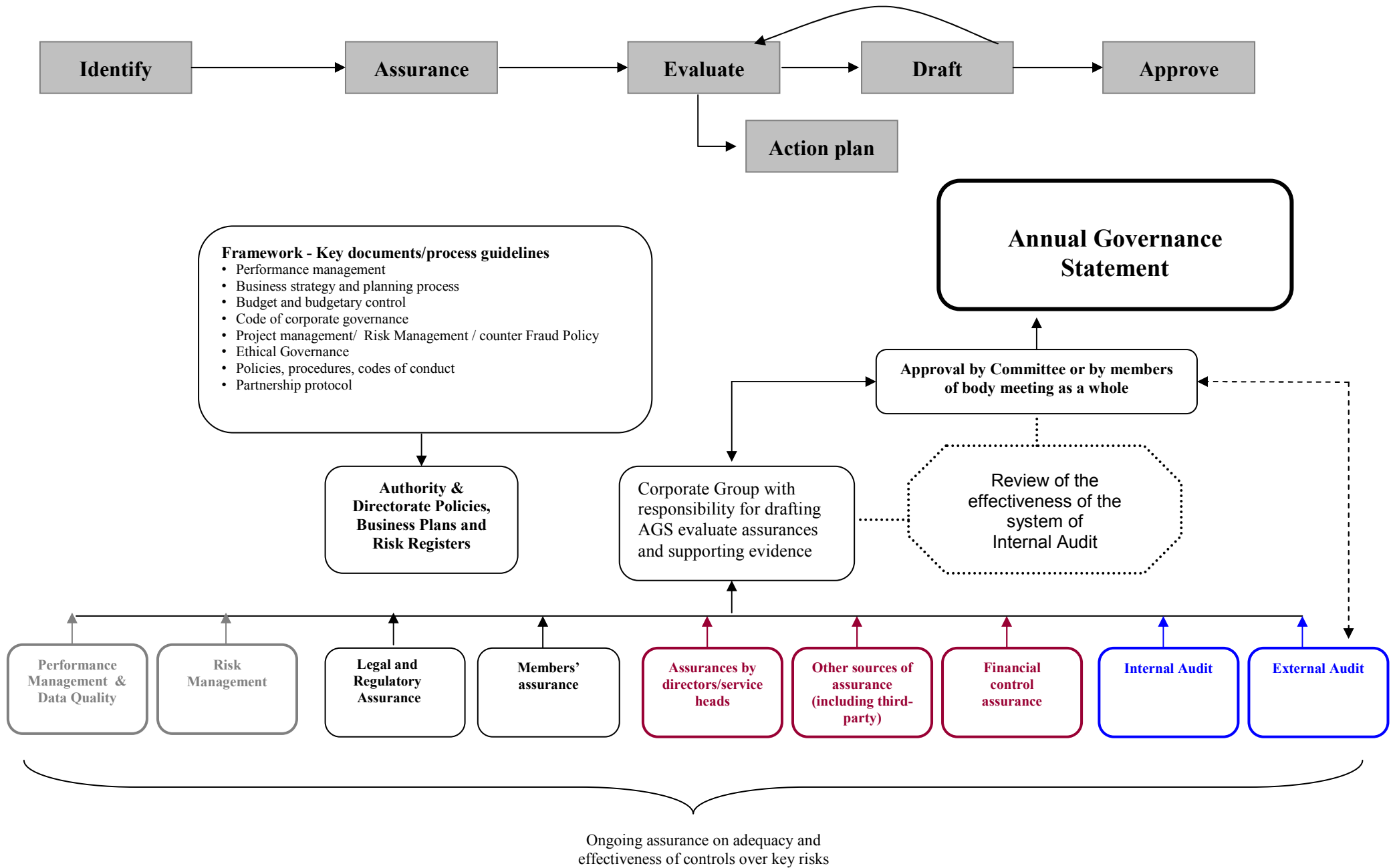
## 4.    Reviewing the Internal Control Environment

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 2010/11 statement.

# Assurance Framework and the production of the Annual Governance Framework

Identify → Assurance → Evaluate → Draft → Approve

Evaluate → Action plan

**Framework - Key documents/process guidelines**
- Performance management
- Business strategy and planning process
- Budget and budgetary control
- Code of corporate governance
- Project management/ Risk Management / counter Fraud Policy
- Ethical Governance
- Policies, procedures, codes of conduct
- Partnership protocol

**Annual Governance Statement**

**Approval by Committee or by members of body meeting as a whole**

**Authority & Directorate Policies, Business Plans and Risk Registers**

Corporate Group with responsibility for drafting AGS evaluate assurances and supporting evidence

Review of the effectiveness of the system of Internal Audit

| Performance Management & Data Quality | Risk Management | Legal and Regulatory Assurance | Members' assurance | Assurances by directors/service heads | Other sources of assurance (including third-party) | Financial control assurance | Internal Audit | External Audit |
|---|---|---|---|---|---|---|---|---|

Ongoing assurance on adequacy and effectiveness of controls over key risks

## 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 2011/12.

5.3    No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which was refreshed in November 2011. The Constitution has been subject to a review in 2011/12 and officers assessed the Council's arrangements following publication of the CIPFA/SOLACE Code on Corporate Governance in June 2007. A report was presented to the Standards Committee in July 2011 with an action plan setting out additional steps the authority would take following an assessment against the code.

5.4    The Council has a Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.

5.5    No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.

5.6    No gaps were found in the arrangements for **identifying key controls to manage principal risks.** The Council has a robust system of internal control. Business Continuity arrangements have been revised and tested in July and February 2010. In 2011/12, the Business Continuity Planning team have carried out a number of exercises to help prepare the authority for the Olympics beginning in July 2012. The Corporate Procurement Strategy was approved by Cabinet in November 2009.

5.7    Overall, the review found that the Council has all of the principal elements of an effective 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 2010/11 are set out in the table below with an update showing their status.

| Issues in 2010/11 statement | Status |
| --- | --- |
| To model an efficiency programme to take account of the reduction in revenue funding for the Council over the next three financial years. | The authority put together a balanced budget to March 2015, and this was approved by Full Council in February 2012. For the period April 2011 to March 2015, savings proposals of £84.6M have now been approved. <br><br> The Council's governance arrangements are in place to monitor savings delivery, which continue to be overseen by the Directorate and Corporate Management teams, and monitored by the Benefits Realisation Team. <br><br> However, there remains a very real risk around the need for additional savings in future, given that many of the national economic targets are worse than the government's 2010 Spending Review projections / targets. In addition, major changes to the benefits system as part of the Welfare Reform Act could increase the demand for Council services whilst the recent announcement that government departments are to create a 5% contingency provision could further increase the likelihood of additional local authority funding reductions. |
| Improve information governance across the authority, including paper based records. | The authority has taken active steps to maintain the integrity of its electronic data and with the introduction of VDI (Virtual Desktop Infrastructure) where the data is held centrally managed. <br><br> Action has also been taken with regard to the paper based records, culminating in a report |

| Issues in 2010/11 statement | Status |
|---|---|
| | agreed by the Corporate Management Team in December 2011, setting out the Council's records management policy and revised information security policy. |
| Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts. | Considerable efforts have been made in recent months to ensure that, for all significant contracts, the arrangements for the management of contracts are strengthened. The team is also reviewing its current procedures to make the process more robust. <br><br> The next steps involve instilling good practice in the management of smaller contacts. |
| Maintain an ongoing drive to deliver decent homes standard. | The first year of the decent homes programme has been successfully delivered, exceeding the target number of homes made decent. Procurement for subsequent years remains on track. Circa 60% of the year 2 decent homes programme has already been procured and for the remainder of 40%, work on the contractor selection phase has now begun. |
| The delivery of sufficient affordable housing over the next year, particularly within the context of central government's welfare reform agenda. | The programme for new affordable homes continues to show at least 1,000 p.a. as an average figure over the 3 years 2010-2013. Units produced in 2013-14 are likely to depend on the new HCA grant programme and now that funding contracts are signed, work is under way to ensure that partner Registered Providers (RP) get schemes on site to enable supply levels to be maintained.   A number of partner RPs are working up details of substantial local regeneration schemes e.g. Brownfield and Aberfeldy Estates and the Blackwall Reach area.   Work has been done to establish the impact of the new affordable rent product with regard to average local income levels and future welfare reforms.  The council continues to examine each new scheme delivering affordable housing to try to ensure a range of rent levels are provided to meet the full range of housing needs in the borough. |
| Arrangements for Safeguarding Children / Child Protection (implementation of | Professor Munro's final report, together with the government's response was published in 2011. The Council has already begun to introduce service improvements prior to the publication of |

| Issues in 2010/11 statement | Status |
|---|---|
| actions arising from the Munro Report) | the report and has reviewed progress (through CMT and partner agencies). Many of those improvements in social work practice, training and process are medium to long term projects; other developments such as responding to the revised Working Together are dependent upon the progress within central government (the revised draft Working Together was published on 12th June 2012). Progress with the implementation is therefore in keeping with government expectations. |
| Pupil Place Planning - expanding school provision to meet rising demand for places. | The actions already taken includes identification of short term primary places needs (2012/13 School Year) and development of technical feasibility of temporary school expansion; continuation of implementation of medium term expansion plans to 2014/15 school year and the strengthening of pupil projections by engaging the Greater London Authority for the projection modelling to ensure local authority planning is based on robust data.<br><br>The next steps are to work with the Development and Renewal directorate to develop a school estate strategy; the presentation of the school estate strategy to Cabinet; and utilising and determining viability of Council assets and making strategic provision of additional primary places to 2020 school year. |

7.3    The penultimate section of the 2010/11 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 review of the effectiveness of the governance arrangements in 2011/12 has not identified any immediate governance issues.

## 8.    Comments of the Chief Financial Officer

8.1    These are contained within the body of this report.

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

9.1. The council is required by regulation 4 of the Accounts and Audit Regulations 2011 to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of the council's functions and which includes arrangements for the management of risk.

9.2. The council is further required to conduct a review of the effectiveness of its system of internal control at least once a year. The review findings must be considered by the council's audit committee and following the review the committee must approve an annual governance statement prepared in accordance with the proper practices in relation to internal control. The audit committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the council's constitution. The subject report is intended to discharge the council's obligations.

9.3. In relation to what constitutes "proper practices" it is appropriate for the council to have regard to the relevant CIPFA code of practice.

9.4. In approving the annual governance statement, the council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. The committee may take the view that a sound system of internal control will support delivery of the council's various programmes and objectives that are targeted at these matters.

## 10. One Tower Hamlets

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

## 11. Risk Management Implications

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

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

12.1 There are no specific SAGE implications.

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## Assurance Control Checklist (summary)

| Step | Description | Assurance |
|------|-------------|-----------|
| **Objective 1: Establishing principal statutory obligations and organisational objectives** | | |
| **Step 1:**<br><br>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 |
| **Step 2:**<br><br>Establishment of corporate objectives | Community & strategic plans | Yes |
| | Consultation on plans | Yes |
| | Service planning framework | Yes |
| | communication strategy | Yes |
| **Step 3:**<br><br>Corporate Governance arrangements | Local code of corporate governance | Yes |
| | Audit Commission Corporate Governance review | Yes |
| | CIPFA/Solace checklist action plan | Yes |
| | Committee charged with corporate governance | Yes |
| | Governance training for members | Yes |
| | Role of Chief Finance Officer | Yes |
| | Role of Head of Audit and Risk Management | Yes |
| **Step 4:**<br><br>Performance management arrangements | Performance Mgmt framework | Yes |
| | Performance Mgmt monitoring reports | Yes |
| | Inspection reports | Yes |
| | | |
| **Step 1:**<br><br>Risk Management strategy | | |
| | Risk Management strategy | Yes |
| | Evidence of dissemination & review | Yes |
| **Step 2:**<br><br>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 |

| Step 3: | | |
|---|---|---|
| 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 |
| **Objective 3 Identify key controls to manage principal risks** | | |
| Step 1: | | |
| 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 2011/12

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

## Annual Governance Statement 2011/12

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

### 1. Scope of Responsibility

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Mayor in Cabinet and the 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** or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee received an update in July 2011 of the Council's current local governance arrangements and the report recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements. A further review is underway.

### 2. The Purpose of the Governance Framework

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an 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 mange any such risks efficiently, effectively and economically.

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

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

### 3. The Governance Framework

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

### *3.1 Vision and Priorities*

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

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

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

Running through this vision is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2011/12, 18 priorities were identified, (http://moderngov.towerhamlets.gov.uk/mgConvert2PDF.aspx?ID=21287). Within these broad themes, there are five strong priorities for the Council in the next 2-3 years which the Mayor has made the centre-piece of his aspirations for the borough – these are:

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

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

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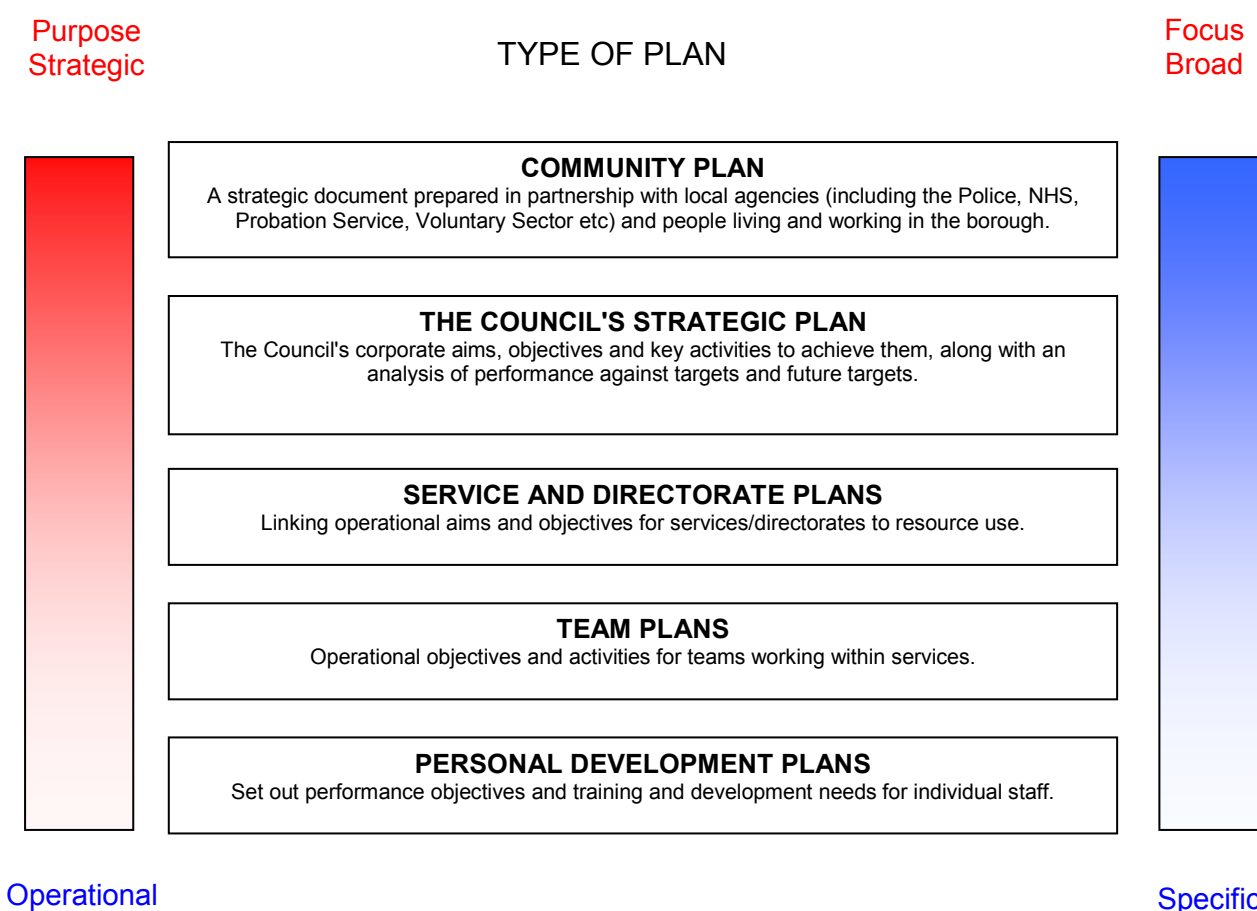- Valuing diversity
- Learning effectively

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

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

### 3.2 Corporate and Service Plans

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

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

Purpose
Strategic

TYPE OF PLAN

Focus
Broad

**COMMUNITY PLAN**
A strategic document prepared in partnership with local agencies (including the Police, NHS, Probation Service, Voluntary Sector etc) and people living and working in the borough.

**THE COUNCIL'S STRATEGIC PLAN**
The Council's corporate aims, objectives and key activities to achieve them, along with an analysis of performance against targets and future targets.

**SERVICE AND DIRECTORATE PLANS**
Linking operational aims and objectives for services/directorates to resource use.

**TEAM PLANS**
Operational objectives and activities for teams working within services.

**PERSONAL DEVELOPMENT PLANS**
Set out performance objectives and training and development needs for individual staff.

Operational

Specific

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

### 3.3 Performance Management

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

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

### 3.4 Council Constitution

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

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

Under the Council's constitution, the Executive is the elected Mayor, who has substantial powers  over the running of local services. In taking decisions the Mayor is supported by the Cabinet, Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as the budget approval and the setting of Council Tax. A scheme of delegation is in place to enable officers to manage their services operationally.

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

During the year the Constitution was refreshed by the Constitutional Working Party to ensure that it kept abreast of changes within the Council. From November 2011, the Council has delegated to the General Committee responsibility for future changes to the Constitution before ratification at the Full 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 medium term financial plan including the capital programme and annual revenue budget;
- the housing strategy; and
- the local development framework.

### 3.5 Codes of Conduct

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities.

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

## 3.6 Rules, Regulations, Policies, and Procedures

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

## 3.7 Overview and Scrutiny

During 2011/12 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.

The Overview and Scrutiny function reviews decisions made by the Mayor in 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 also consider performance monitoring information and have a key role in reviewing and challenging the Cabinet's budget framework prior to consideration at Full Council.

## 3.8 Audit Committee

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

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2011/12.

## 3.9 Internal Audit

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

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2011/12, the overall the control environment is adjudged to be satisfactory.

### 3.10 External Audit

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

- preparing accounts in compliance with statutory and other relevant requirements;

- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and

- managing performance to secure economy, efficiency and effectiveness in the use of resources.

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

### 3.11 Whistle Blowing Policy and the Complaints Procedure

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

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

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

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, 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.

### 3.12 Risk Management

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

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

*3.13 Financial Management*

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

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is a management responsibility. The control arrangements in 2011/12 included:

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

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

*3.14 The Efficient and Effective Use of Resources*

Value for money and continuous service improvement are secured through a range of processes, including the application of best value principles and the carrying out of efficiency reviews. During 2011/12, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in the future. As part of its service and financial planning process, the Council set efficiency targets and brought performance data into the consideration of resource allocation. The Audit Commission's most recent assessment for value continues to be positive in the way the Council seeks to deliver value for money.

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

*3.15 Learning and Organisational Development*

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

Councillors have a member support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. The Audit Committee, Standards Committee and Pensions 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.

### 3.16 Communication and Engagement

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

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

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

### 3.17 Partnerships

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

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

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

### 4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review 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 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 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.

- 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 2011/12 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

- Monthly monitoring of strategic risks of the Council by the CMT and the Mayor's Advisory Board.

**Significant Governance Issues**

The review of the effectiveness of the governance arrangements in 2011/12 has not identified any immediate governance issues.

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

………………………………………

Chief Executive

Date:

………………………………………

Mayor

Date: