

REPORT TO: <b>Audit Committee</b>	DATE <b>30 June 2014</b>	CLASSIFICATION <b>Unrestricted</b>	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director, Resources</b>		Annual Governance Statement 2013/14  <b>Ward(s) Affected: N/A</b>		
ORIGINATING OFFICER(S): <b>Minesh Jani</b> <i>Head of Risk Management and Audit</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 2013/14 at Appendix 3.

## 3. Background

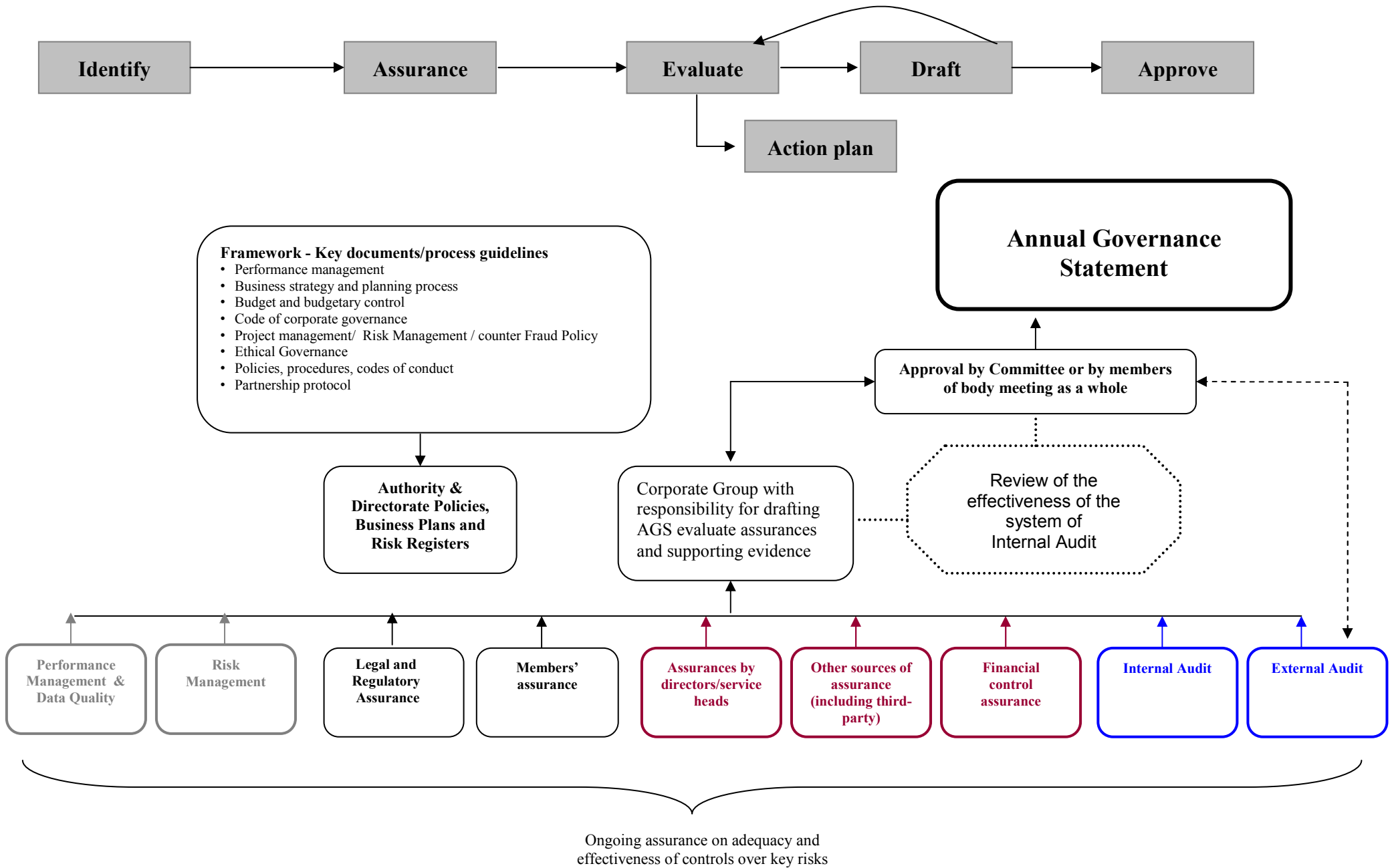
- 3.1 The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement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

- 3.2 The statement will be signed by the Head of Paid Service and the Mayor. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Head of Paid Service and the Mayor.
- 3.3 The statement needs to be completed by 30 June 2014, to meet the deadline for the publication of the accounts.

#### **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 2012/13 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 2013/14.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which is published on the Tower Hamlets website, and is dated April 2014. The Council's governance arrangements have been subject to a review in 2013/14 and officers have assessed the Council's arrangements in line with the publication of the CIPFA/SOLACE Code on Corporate Governance (in June 2007). A report was presented to the Standards Committee with an action plan setting out additional steps the authority would take following an assessment against the code.
- 5.4 The Council has a Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.
- 5.5 No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.
- 5.6 No gaps were found in the arrangements for **identifying key controls to manage principal risks**. The Council has a robust system of internal control. Business Continuity arrangements have been revised and tested. In 2012/13 and 2013/14, the Business Continuity Planning team carried out a number of exercises. The Corporate Procurement Strategy was approved by Cabinet in November 2009 and the more recently, Cabinet has approved the Council's Procurement Imperatives setting out the Council's strategy around procurement.
- 5.7 Overall, the review found that the Council has all of the principal elements of an internal control framework.

## 6. Sources of Assurance

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

## 7. Annual Governance Statement

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

7.2 The issues raised in 2012/13 are set out in the table below with an update showing their status.

Issues in 2012/13 statement	Status
Partnership structures – new arrangements are in the process of being implemented at locality / ward level and at strategic level.	The local community ward forum has been constituted and implemented and Cabinet has agreed the governance arrangements put in place. The forums have been well attended with three public meetings convened in the last financial year.
Risk identification within Communities Localities and Culture	Implemented. The directorate has put in place arrangements for the identification and management of risks including developing a protocol that has adopted by the directorate management team. The new arrangements have resulted in a structured approach to the management of risks with regular reporting of directorate risks to the directorate management team.
Recent audit reports and the Overview and Scrutiny Committee have asked that a comprehensive review is undertaken on the management arrangements for the control and monitoring of grants.	Following internal audit reports and Overview and Scrutiny, consideration is currently being given to proposals to improve the governance arrangements for third sector grant giving. This will include improvements to management functions and systems, controls and processes. This action has been referred to in the 2013/14 statement.
Pupil placement planning: expanding school provision to meet rising demand for places.	The directorate has identified the short term primary place needs (2014/15 school year) and the developed a technical feasibility of temporary school expansion.  Further steps are planned to strengthen the pupil

<b>Issues in 2012/13 statement</b>	<b>Status</b>
	projections by engaging the Greater London Authority with projections modelling to ensure the pupil planning is based on robust data. Current medium term expansion plans will continue to be implemented in to 2015/16. This action has been referred to in the 2013/14 statement.
Transition of Public Health to the Council.	The first year of operation has allowed the disaggregation of major contracts to be undertaken. A cautious approach has been adopted and over-commitments have been averted.
Embed the Council's use of the Virtual Desktop Infrastructure as part of the broader Smarter Working programme.	Implemented. The resilience of the virtual desktop has been enhanced over the last year resulting in improved availability and resilience both from the office and away from the office. The improved infrastructure will facilitate the organisation in deliver its broader smarter working agenda.
Implementation of the Finance Systems.	<p>The Council made a decision to replace its outmoded financial system to meet the evolving information needs of its users and the Council. The new system went live in May 2013 and working with the Council's Strategic IT partner, Agilisys, the new arrangements continue to be monitored to ensure that they deliver the expected benefits and enhanced systems of controls.</p> <p>During 2013/14, the finance team was also re-structured to better align the finance service to the needs of the organisation. During 2014/15, the new structure will be monitored and key roles filled and the Council's financial regulations and procedures refreshed.</p>
Update the local code of Corporate Governance.	On-going and referred to in the 2013/14 statement.
Update amendments agreed at the full Council meeting to the published constitution.	The Council's published constitution has been updated, dated April 2014. Procedural matters of the constitution have been referred to in the 2013/14 statement.

7.3 The penultimate section of the 2013/14 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows: -

- Youth Services Management of third sector procurement
- A comprehensive review of the management arrangements for the control and monitoring of grants
- Financial and workforce impact of delivering the new and revised duties within the Care Act (Care and Health Reform Bill)
- Pupil Place Planning to expand school provision to meet the rising demand for places
- Budget pressures for adult social care packages
- Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance
- Election and pre-election period
- Enhance the financial system
- Enhance contract management and contract letting process

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

8.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements as required by regulation 4(2) of the Accounts and Audit Regulations 2003. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.

8.2 The Chief Financial Officer comments 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 2012 to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of the council's functions and which includes arrangements for the management of risk.

9.2. The council is further required to conduct a review of the effectiveness of its system of internal control at least once a year. The review findings must be considered by

the council's audit committee and following the review the committee must approve an annual governance statement prepared in accordance with the proper practices in relation to internal control. The audit committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the council's constitution. The subject report is intended to discharge the council's obligations.

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

## **10. One Tower Hamlets**

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

## **11. Risk Management Implications**

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

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

- 12.1 There are no specific SAGE implications.

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

Brief description of "background papers"

**Contact :**

*None*

*N/a*



## Assurance Control Checklist (summary)

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

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

## Summary of reports received in or pertaining to 2013/14

Reports	Reporting period	Report date
Annual Audit plan – KPMG	2012/13 accounts	March 2014
Opinion on Financial Statements	2012/13	September 2013
Grant Claim Report	2013/13	February 2014
Report to those charged with governance (ISO260) 2012/13.	2012/13	September 2013
Report to those charged with governance (ISO260) Pensions 2012/13.	2012/13	September 2013
Other		
Protecting the public purse 2013	2012/13	November 2013
Protecting the Public Purse Fraud Briefing 2013 LBTH	2012/13	December 2013
Audit Committee-Fraud Briefing.	2012/13	December 2013
School Reports	2013/14	Various-2013/14
Children's Homes	2013/14	Feb/March 14
Complaints outcomes	2013/14	Various-2013/14
Audit Committee Terms of Reference,	2013/14	June 2013
Membership, Quorum and Dates of meetings.	2013/14	June 2013



### Draft Annual Governance Statement 2013/14

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 assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2003 as amended.

#### 1. Scope of Responsibility

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

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. The Council's Standards Advisory Committee received an update in June 2013 of the Council's current local governance arrangements and the report recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements. A further review is underway.

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

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

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

Tower Hamlets' governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Advisory 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 operated 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 is part of the Tower Hamlets Partnership with a vision to 2020 set out in the borough's Sustainable Community Strategy, known as the Community Plan. The Community Plan has four main 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 2013/14, 19 priorities were identified, ([http://www.towerhamlets.gov.uk/lgs/20001-20100/strategic\\_plan\\_2013-14.aspx](http://www.towerhamlets.gov.uk/lgs/20001-20100/strategic_plan_2013-14.aspx)). Within these broad themes, there are five strong priorities for the Council which the Mayor has made the centre-piece of his aspirations for the borough – these are:

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

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

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

There was significant consultation with local people to develop the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people, culminating in the development of the Tower Hamlets Community Plan 2011. The Plan is due to be refreshed in 2014/15.

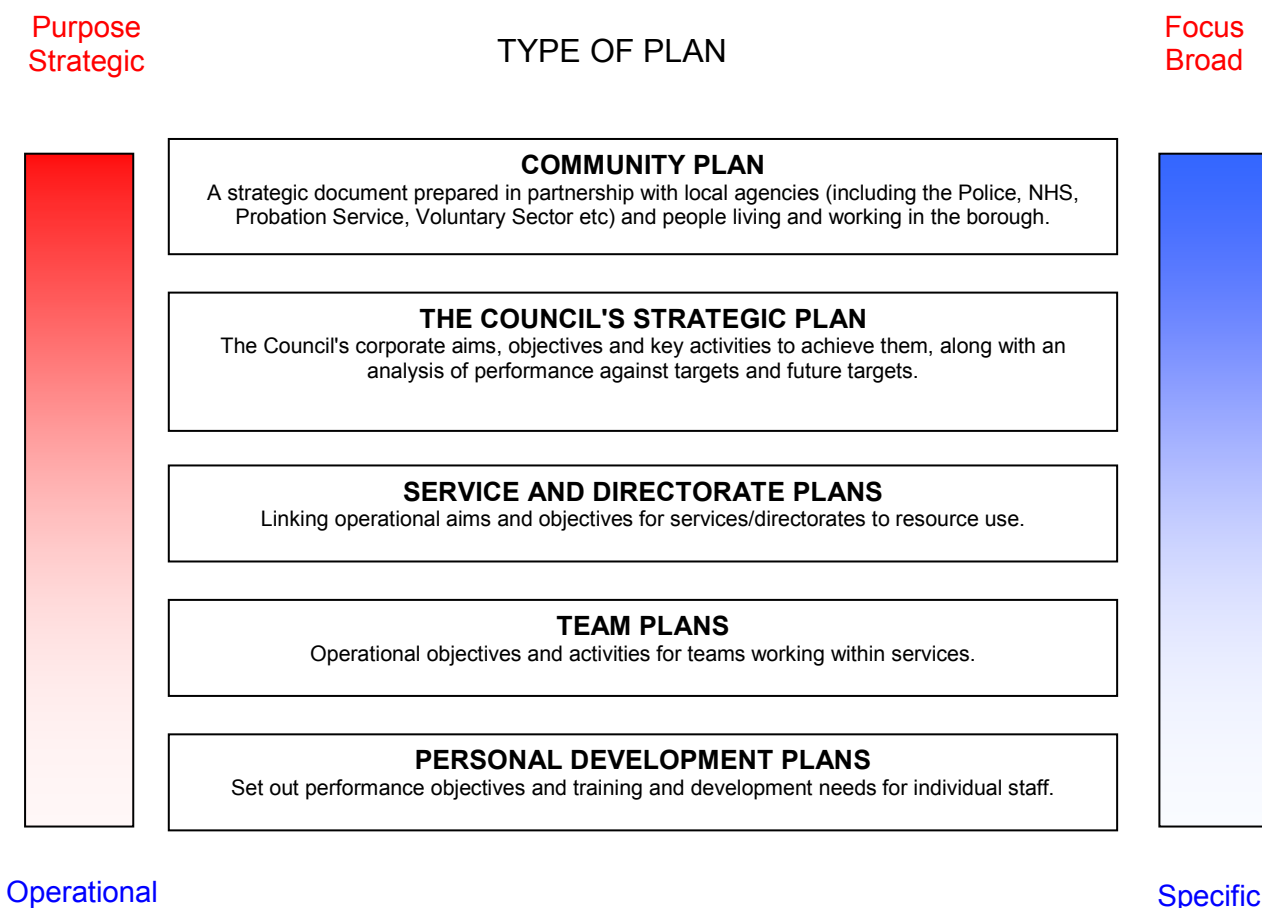
The vision, themes and priorities of the Community Plan are delivered through the Tower Hamlets Partnership structures which comprise the Partnership Executive, the Community Plan Delivery Groups (CPDGs), and localised governance structures.

The Community Plan falls 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. The Plan is 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 and is structured around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, at which time it is also reviewed by Overview and Scrutiny. The Community Plan is refreshed every three years.



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

### **3.3 Performance Management**

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

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

### **3.4 Council Constitution**

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

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

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

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

In 2012, the Council requested a governance review of the constitution which was undertaken during 2013/14. This review has indicated that the constitution is fit for purpose and conforms with statute and best practice. The review has indicated that there are some areas of the constitution where we have options to expand or amend wording to clarify certain issues. The Interim Monitoring Officer is reviewing the work done to date and will develop an options paper for consideration by a new Constitution Working Party to be set up after the 2014 election.

The Council will consider and approve any changes proposed to the key strategic policies set out in article 4 of the constitution, including:

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

### **3.5 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 2013/14 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and the Health Scrutiny Panel. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

The Overview and Scrutiny function reviews decisions made by the Mayor in Cabinet and raises proposals for the Mayor in Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they also consider performance monitoring information and have a key role in reviewing and challenging the Mayor in Cabinet's budget 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 Public Sector Internal Audit Standards. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Council's external auditor, KPMG. The Audit Committee met four times during the financial year 2013/14.

### **3.9 Internal Audit**

Internal audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. 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 2013/14, the overall the control environment is adjudged to be adequate.

Following the publication of the Public Sector Internal Audit Standards (PSIAS), the Council's internal audit arrangements have been updated and the Audit Charter endorsed by the Audit Committee most recently in June 2014.

### **3.10 External Audit**

The Council's external auditors, KPMG, review its arrangements for:

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

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

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

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

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

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

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

### **3.12 Risk Management**

The Authority has a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The principles of risk management are embedded in the Council's decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the least risky option, particularly where the potential benefits to the community warrant the acceptance of a

higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments.

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

During 2013, Zurich Municipal Engineering undertook a review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation. The risk team has developed an action plan and an Annual report which was also shared with the Audit Committee in June 2014.

### **3.13 Financial Management**

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

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2013/14 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.

### **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 2013/14, 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. KPMG's most recent assessment for value continues to be positive in the way the Council seeks to deliver value for money.

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

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

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

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

### **3.16 Communication and Engagement**

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

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

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

### **3.17 Partnerships**

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

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

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

### **4. Review of Effectiveness**

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

- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.
- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- The Council is subject to external audit activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control.
- Monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- The provisional outturn on the 2013/14 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Quarterly monitoring of strategic risks of the Council by the Corporate Management Team and the Mayor's Advisory Board.

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

On 4th April the DCLG appointed PricewaterhouseCoopers to carry out an inspection of compliance by the London Borough of Tower Hamlets with the requirements of Part 1 of the Local Government Act in relation to the authorities functions in respect of governance, particularly in respect of the authorities functions under Section 151 of the Local Government Act 1972 and as they relate to the following:

- The authority's payment of grants and connected decisions;
- Transfer of property to third parties;
- Spending and decisions in relation to publicity; and
- Processes and practices relating to entering of contracts.

### **Significant Governance Issues**

The review of the effectiveness of the governance arrangements in 2013/14 has identified some areas where action is appropriate to enhance the Council's governance. The specific actions are set out below and in all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

Governance Issue	Action taken and next steps	CMT Lead
<p>Payments to third sector organisations outside Mainstream Grants.</p>	<p>Following a whistle blow, internal audit findings from a review of an organisation that received payments from the Council raised concerns that have been reported to the police.</p> <p>A wider review of process management is underway covering all grant making and spot purchase functions.</p>	<p>Corporate Director - Communities, Localities and Culture</p>
<p>A comprehensive review of the management arrangements for the control and monitoring of grants.</p>	<p>In view of the adverse publicity attracted by the current Mainstream Grant Programme, consideration is being given to proposals to improve the governance arrangements for third sector grants. This will include improvements to management functions and systems, controls and processes.</p>	<p>Corporate Director - Development and Renewal</p>
<p>Financial and workforce impact of delivering the new and revised duties within the Care Act (Care and Health Reform Bill).</p>	<p>A Care and Health reform programme has been set up to oversee the implementation of the Care act. Work streams are planned out and risks identified, as follows: -</p> <p>Careful planning of the programme resources required and use of the grant money agreed.</p> <p>Programme Manager appointed within ESCW and is linked into the London region ADASS network that informs DH on funding issues. The Interim Corporate Director, Resources is a member of the Board.</p> <p>The next steps include development of work streams to identify workforce needs and issues that are being fed into a workforce lead in HR, which is linked to national and regional work.</p> <p>Careful planning of all work to deliver the changes to be through bespoke governance arrangements designed by the Programme Manager.</p>	<p>Corporate Director - Education, Social Care and Wellbeing</p>
<p>Pupil Place Planning to expand school provision to meet the rising demand for</p>	<p>The directorate has identified the short term primary place needs (2014/15</p>	<p>Corporate Director -</p>

## Appendix 3

Governance Issue	Action taken and next steps	CMT Lead
places.	<p>school year) and the developed a technical feasibility of temporary school expansion.</p> <p>Further steps are planned to strengthen the pupil projections by engaging the Greater London Authority with projections modelling to ensure the pupil planning is based on robust data. Current medium term expansion plans will continue to be implemented in to 2015/16.</p>	Education, Social Care and Wellbeing
Budget pressures for adult social care packages have emerged during 2013/14, which have been contained within existing directorate resources. The on-going position however points to an unfunded set of adults social care package.	<p>Action has been initiated by the directorate, which includes; transfer of management accountability to Adults Social Care service area; improved process, regularity and administration of care panels; and enhanced arrangements for identifying, monitoring and controlling costs.</p> <p>The next steps include the need to strengthen financial controls and lines of accountability; improved data quality and consideration of the policy framework.</p>	Corporate Director - Education, Social Care and Wellbeing
Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.	The Local Government Association reviewed the Council's constitution and indicated that the constitution is fit for purpose and conforms with statute and best practice. Further, recognising that there may be areas where the authority may learn from other authorities with the Executive Mayor, an independent external review was also commissioned comparing the Council's constitution with those of similar local authorities. This review confirmed there were no fundamental weaknesses of gaps in the Council's constitution. There are opportunities to word elements more clearly or tighten up some areas of process to enable the Executive and non-Executive business to run more smoothly.	Monitoring Officer – Law Probity and Governance
Election and pre-election period.	Elections in Tower Hamlets are always vigorously contested and in the past there have been allegations of malpractice. These have been fully	Returning Officer – Law Probity and

Governance Issue	Action taken and next steps	CMT Lead
	<p>investigated by the police and Electoral Commission and none have been upheld. The Electoral Commission made various recommendations about improving the trust and confidence in the integrity of May 2014 elections, which have been implemented.</p> <p>The Electoral Commission has reviewed progress in the implementation of the recommendations and has strongly supported the steps that have been taken.</p> <p>Further action is planned to tighten up procedures around registration for, and management of postal votes. Other actions include; joint on-going working between the Returning Officer and police to deter and detect electoral fraud; local protocol committing all those involved in May 2014 elections to work towards free and fair elections; pre-election guidance reviewed and issued to all managers, staff and members and pre-election restrictions from 14 April including complete review of Council website and other publicity.</p>	Governance
<p>Enhance the financial system to maximise benefits derived from the enhanced functionality of the new finance system and refresh of financial regulations and procedures.</p>	<p>The Council made a decision to replace its outmoded financial system to meet the evolving information needs of its users and the Council. The new system went live in May 2013 and working with the Council's Strategic IT partner, Agilisys, the new arrangements continue to be monitored to ensure that they deliver the expected benefits and enhanced systems of controls.</p> <p>During 2013/14, the finance team was also re-structured to better align the finance service to the needs of the organisation. During 2014/15, the new structure will be monitored and key roles filled and the Council's financial regulations and procedures refreshed.</p>	Interim Corporate Director - Resources



Governance Issue	Action taken and next steps	CMT Lead
Enhance contract management and contract letting process.	<p>The Procurement Strategy and procedures have been refreshed and adopted.</p> <p>To ensure compliance around procurement, the Competition Planning Forum and the Competition Board continue to monitor and recommend the best course of action for all significant purchases.</p> <p>The new procedures now provide greater visibility and input from the Corporate procurement team and over the next financial year, the team plan to seek better outcomes from the organisation's spend and enhance contract monitoring arrangements across the organisation.</p>	Chair of Competition Board – Interim Corporate Director, Resources

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

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Head of Paid Service

Date:

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Mayor

Date: