

STATEMENT ON INTERNAL CONTROL

for the period 1st April 2005 to 31st March 2006

SCOPE OF RESPONSIBILITY

The Council is responsible for ensuring that 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.

In discharging this responsibility, the Council is also responsible for ensuring that there is a sound system of internal control that facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It 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 the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively and economically.

The system of internal control has been in place at the Authority for the financial year ended 31st March 2006, and up to the date of the approval of the annual report and accounts.

INTERNAL CONTROL ENVIRONMENT

The key elements of the internal control environment are the Council's objectives, the decision-making framework, its policies and procedures, its systems for managing resources, and its arrangements for managing risk and monitoring performance.

Establishing and monitoring of the Council's objectives

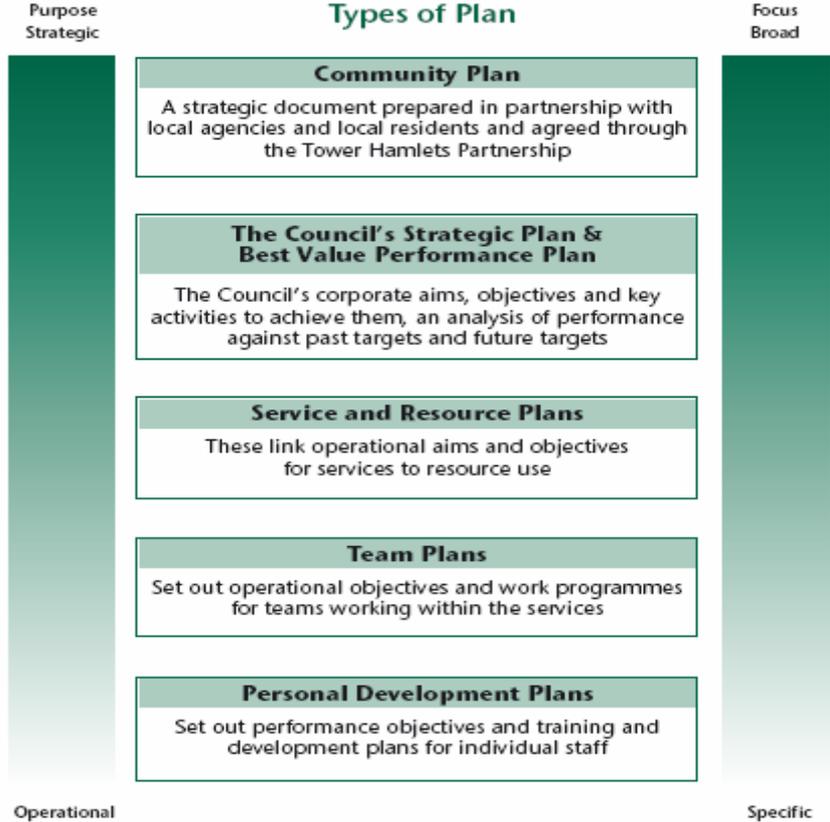
The Council has a clearly defined set of priorities and supporting objectives designed to achieve the vision, established through the Tower Hamlets' Community Plan, of improving the quality of life of all those who live and work in the borough. The Council's particular contribution to the implementation of the Community Plan is set out in a Strategic Plan, which defines the Authority's key objectives for the year together with associated activities and progress milestones. A Strategic Plan was in existence for the whole of the year under review.

Progress towards the achievement of those objectives is closely monitored across the organisation including regular reports to the Corporate Management Team, Cabinet Members and the Council's Scrutiny function.

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

The overall planning framework is illustrated in the following diagram.



The decision making framework

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

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

During 2005/06 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allowed Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

Compliance with policy, procedures, law and regulations

The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as is reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Instructions, 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 Authority'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.

Internal Audit provides assurance and advice on internal control to the Corporate Management Team and Members. The service is provided in partnership with Deloitte and Touche. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control within systems and recommends improvements. It also supports the management of the Council in developing systems, providing advice on matters pertaining to risk and control.

Internal Audit is overseen by an Audit Panel comprising Members of the Cabinet, the Chair of the Overview and Scrutiny Committee, the Chief Executive and the Director of Resources. The Audit Panel reviews audit findings and the effectiveness of the internal audit function.

Risk management

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

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

Financial management

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Director of Resources. The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a reasonable period.

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2005/06 included:

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

The effective and efficient use of resources

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2005/06, the Council continued work on its efficiency programme. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation.

The 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.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review was conducted in accordance with the assurance framework and therefore focussed on the risks to the fulfilment of the Council's principal objectives, as set out in the Strategic Plan, and the controls in place to manage those risks.

The review of the effectiveness of the internal control framework involved the evaluation of the key sources of assurance:

1. 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. A revised Constitution was agreed by full Council in March 2006. Following mandatory training for all Councillors on the ethical framework and conflicts of interest during 2004/5, an ethical standards self assessment was completed by all 51 Members of the Council during the autumn of 2005.
2. The annual Internal Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate and effective.
3. 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.
4. The Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The Council is rated as 'three star' in the Comprehensive Performance Assessment, including a score of three out of four for its use of resources. The results of inspections of individual services were generally positive and showed at least promising prospects, including 3 stars for both Children's and Adults Social Care services. Children's Services also received a score of 4/4 in its Annual Performance Assessment.
5. Monitoring of performance shows consistent improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
6. The provisional outturn on the 2005/06 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

SIGNIFICANT INTERNAL CONTROL ISSUES

The review of the effectiveness of the system of internal control operating in 2005/06 has identified a number of areas where action is appropriate to enhance the internal control environment and ensure continuous improvement. The areas are set out below. In all cases work is underway to address the action points.

- ◆ Carry out a comprehensive induction programme for new members.
- ◆ Further review the Member/Officer protocol
- ◆ Test the revised Business Continuity Plan
- ◆ Review the arrangements for the Council's Audit Panel.
- ◆ Fully implement the Housing Benefit Verification Framework.
- ◆ Maintain oversight of the corporate implications of the Housing Choice programme.
- ◆ Complete the implementation of the Children's Services directorate.
- ◆ Implement the Financial Management Standard in secondary schools and prepare for the implementation in primary schools in 2007/08.
- ◆ Improve the corporate coordination of asset disposal.
- ◆ Continue the active management of sickness absence.
- ◆ Continue initiatives to improve Value for Money.

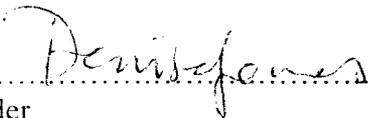
CONCLUSION

We have been advised on the implications of the review of the effectiveness of the system of internal control by the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of internal control is effective. We are also satisfied that there are appropriate and effective plans in place to address identified weaknesses and to ensure continuous improvement in the system of internal control.



.....
Chief Executive

Date: 28 / 9 / 06



.....
Leader

Date: 28th SEPTEMBER 2006 .