

STATEMENT ON INTERNAL CONTROL 2005/06

INTRODUCTION

The Accounts and Audit Regulations require the Council to be responsible for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control and for including a Statement on Internal Control (SIC), prepared in accordance with proper practices, with its published accounts.

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 accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal.

To that end, officers have undertaken a review of the adequacy, effectiveness and extent of compliance of our arrangements and an action plan has been agreed to address opportunities for improvement.

In discharging its overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions, and which include 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 efficiently and economically.

The basis of the system of internal control was in place at the Council for the year ended 31 March 2006 and up to the date of the approval of the annual report and accounts.

THE INTERNAL CONTROL ENVIRONMENT

The key elements of the internal control environment are summarised below:

Establishing & monitoring of the authority's objectives

The Council has an approved Policy Programme which focuses service improvements on the things that matter most.

The Council's Policy Programme is supported by an Improvement Programme which covers key areas where we need to do development work to lay the foundations for future improvement.

Each year the Council reviews the progress it has made and the views of residents emerging from consultation carried out by MORI. This enables the Policy Programme to be updated as activities are completed, objectives achieved and new issues emerge.

Once we have completed the cycle of reviewing and renewing our Policy Programme each year, we publish our Performance Plan for the purpose of-

- Setting out our Commitment, Strategic Aims and Key Objectives
- Reviewing our progress and performance during the last year against our the Key Objectives in our Policy Programme
- Renewing our Key Objectives and Improvement targets for next year
- Helping manage our performance and improvement planning to deliver better services in the areas that matter most to our residents

The Council operates in a complex environment, providing community leadership and working with a wide range of partners to deliver joined up services in the Borough. Our first Community Plan was published in Autumn 2004. This has been developed with partners as a series of co-ordinated strategies to protect and enhance quality of life in RBK. The Council's own corporate planning (as summarised in our Policy Programme), alongside community research and the plans of our partners, have all helped shape the Community Plan.

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The negotiation of a Local Area Agreement for Kingston to run from 1 April 2006 defines with greater precision the improved outcomes we are targeting in order to give effect to the aspirations in our Community Plan. There was already a good fit between the Community Plan and the Council's corporate priorities set out in the Policy Programme (see chapter one of the 2005/06 Performance Plan) and the existence of the LAA makes the links more explicit.

Policy and decision making

The Council has an agreed Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The Executive is responsible for most decisions. Executive powers are exercised by both the Executive itself (made up of the Leader and 6 councillors, who are all appointed by the Council) and the four Neighbourhood Committees. Major decisions required are published in advance in the Forward Plan, and will invariably be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policies and budget. Any decisions the Executive wishes to take outside the budget or policy framework must be referred to Council as a whole to decide. Following a Constitutional Review during the year the Council has amended its arrangements for Overview and Scrutiny. From the beginning of the Municipal Year 2006/07 five of the six Overview Panels that support, monitor and scrutinise the work of the Executive have been replaced by a new Overview Commission and a separate Scrutiny Panel. The Overview Commission is responsible for policy development and review work whilst the main role of the Scrutiny Panel is to hold the Executive to account. A separate Health Overview Panel has been retained. A "call-in" procedure allows scrutiny of Executive decisions by the Scrutiny Panel before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. The Panel can also undertake selective pre-decision scrutiny where timescales permit. Neighbourhood Committees also have defined scrutiny powers and their decisions can also be called in for review.

The Constitution itself is kept under continuous review with periodic reports to the Executive and the Council when changes are required. Constitutional Review is now a specific element of the Leader of the Council's Executive Portfolio and the formal review referred to in paragraph 14 above, utilising external advice, was completed in March 2006.

Compliance with established policies, procedures, laws and regulations.

The Council has a duty to ensure that it acts in accordance with the Law and various regulations in the performance of its functions. It has developed policies and procedures for its officers to ensure that, as far as is possible, all officers understand their responsibilities both to the Council and to the public. Three key documents are the Scheme of Delegations, Financial Regulations and Contract Standing Orders, which are available to all officers via the Council's Intranet and/or website, as well as available to the public as part of the Constitution, which is published on the Council's website. Financial Regulations and Contract Standing Orders have recently been reviewed in the context of the new Procurement Framework that has been adopted by the Council and generally. The Scheme of Delegation to Officers was reviewed as part of the wider Constitutional Review referred to earlier. Other documentation includes corporate policies or guidance on a range of topics such as Data Protection, Freedom of Information, ICT Security, Whistleblowing and Fraud. All policies are subject to internal review to ensure these are adequately maintained. The Council keeps all staff aware of changes in policy and new legislation as necessary, by a variety of documentation and other means, and where appropriate arranging training for all or key members of staff. A Protocol governing relationships between Members and Officers was approved in April 2005 and a separate Planning Protocol for Members is still under consideration.

The Council's Standards Committee oversees standards of conduct for members. Following an 'ethical governance health-check' the previous year, the Audit Commission's overall conclusion was that the Council's arrangements for maintaining high standards of ethical behaviour by members are sound, and comply with legislative requirements.

Statutory instruments setting out the roles and responsibilities of the Authority, in terms of both what it can and cannot do, are all reflected in the Council's Constitution. This is overseen by the Head of Legal Services and the Head of Democratic Services & Partnership. The management of and adherence of the Council's wider statutory obligations rely heavily on devolved working arrangements, with Legal Services advising all services on legislation as required.

In the course of the year the Head of Legal Services, as the Council's Monitoring Officer, has not had to report on any proposal, decision or omission by the Council, any committee or officer, that has contravened or is likely to contravene any enactment or rule of law, or on any formal Report by the Local Government Ombudsman finding maladministration causing injustice.

All Directors and Heads of Service have responsibility for maintaining a system of sound internal controls and management processes within their area of responsibility that support the achievement of Corporate and Departmental objectives, and for reviewing their effectiveness. Each has completed an Assurance Statement for their service(s) confirming that a sound system of internal control has been in place throughout the financial year.

Fundamental to the system of internal control is the requirement to develop and maintain robust systems for identifying and evaluating all principal risks to the achievement of the Council's objectives and ensuring that the control framework includes controls to mitigate those risks.

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The Council has effective operational risk management practices in professional disciplines, (e.g. financial management, health and safety, and social services casework). Recognising that it had more to do on strategic and holistic business risks, consultants were appointed to help RBK to develop a co-ordinated, consistent approach to all stages of the risk management cycle, and establish a high level corporate and cross-cutting risk register with action plans. The intention to address risk management was signalled in the Council's Improvement Programme. However, further work has to be done before risk management is fully embedded in the activities of the authority and all senior staff are fully trained or equipped to manage risk in a way appropriate to their authority and duties. The Risk Management Group has reviewed the Corporate Risk Register during 2005-2006 and Directorate Management Teams have incorporated a risk review approach into team plans.

Ensuring economic, effective and efficient use of resources and securing continuous improvement

The Council maintained robust budgetary monitoring and control processes during the year to ensure that financial resources were being used to their best advantage, including regular management reporting to the Corporate Development Team (CDT) and Members.

Service planning is underpinned by financial planning, with increased expenditure in any service area being approved by the Executive through the annual resource allocation process. As part of this process a rigorous examination of all budgets is undertaken to identify opportunities for making efficiency savings or maximising income. Increased expenditure is allocated in line with the Council's published policy priorities and statutory obligations.

The Council's Best Value duty has been supported through its Improvement and Procurement Programme. The Council's new Procurement Framework has been translated into effect through a number of longer, strategic partnerships to secure investment and quality services. Officer Team Plans, linked to corporate objectives and priorities, contribute to the best use of resources and improvement.

Through the Council's risk management processes the needs have been identified to strengthen business continuity and disaster recovery plans, to develop a comprehensive asset management plan and to develop corporate project management to support the council's policy programme and ensure the best use of resources. A corporate business continuity plan is being developed using business continuity consultants. The corporate business continuity plan will be used as a template for refining team business continuity plans in 2006-2007. Further work will be undertaken in 2006 to develop RBK's Asset Management arrangements.

Economic, efficient and effective use of resources is subject to independent review through the work of both External and Internal Audit, external review and market testing. During 2005, as required under the 'Gershon Review' the Council submitted Annual Efficiency Statements to the Office of the Deputy Prime Minister (ODPM) looking backwards into 2004/05 and forwards into 2005/06. In October 2005 a mid-year update for 2005/06 was submitted, and statements looking backwards into 2005/06 and forwards into 2006/07 have also been submitted.

In addition, the Audit Commission carried out a Value for Money Assessment as part of their Use of Resources Assessment under CPA, and judged that in regard to obtaining value for money the Council was 'Performing Well'.

Financial Management and Internal Financial Control

Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Director of Finance. The system of internal financial control can provide only reasonable and not absolute 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 timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular, the system includes:

- comprehensive budgeting systems;
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure against the forecasts;
- clearly-defined capital expenditure guidelines; and
- as appropriate, formal project management disciplines.

There were again concerns about some increases in needs-led expenditure, and also shortfalls against some income targets. These were in service areas which had been identified in the financial risk analysis considered during the

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2005/06 budget setting process, and arose because of small (and statistically insignificant) numbers of very high needs (and high cost) placements. The resulting variations were identified early and were managed by achieving savings elsewhere through expenditure and recruitment restraints. As a result, outturn expenditure remained within budget. Officers continue to implement robust budget monitoring systems, using a risk based approach which ensures particular close detailed scrutiny of known budget risk areas, and a strong corporate approach to managing the overall position.

The Accounts and Audit Regulations require that the Council maintains an adequate and effective internal audit of its accounting records and of its system of internal control. The Council has delegated responsibility for this duty to the Director of Finance.

Internal audit is an independent appraisal function that acts as a control which measures, evaluates and reports upon the effectiveness of internal controls, financial and others, as a contribution to the efficient use of resources within the Authority. Strategic and Annual Audit Plans are used to map out the cyclical coverage of fundamental financial systems and other audits. These plans are based on the identification of the Council's systems and activities to be audited, each assessed for risk. Work relating to prevention and detection of fraud and corruption is integrated into this audit planning process. Internal Audit focuses mainly on meeting the basic regularity and probity threshold.

Internal Audit operates to defined standards as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government. They provide an independent opinion on the adequacy and effectiveness of the system of internal financial control. Each audit is reported to the appropriate level of management together with agreed action plans where appropriate. The Assistant Director, Audit is empowered to report any matter of concern directly and independently to the Chief Executive or to the Leader of the Council. In their most recent Management Letter the external auditors have stated that their review of Internal Audit's work on the council's key financial systems confirmed that the work had been carried out to a satisfactory standard. Internal Audit reported as necessary to the Community Leadership and Resources Overview Panel on its terms of reference, responsibilities and objectives, and the Panel received its annual plan and annual report. In future they will report to the Audit Committee.

The Director of Finance's review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the Council;
- the work of the internal auditors as described above;
- the external auditors in their annual letter and other reports, which stated that the Council's financial position is sound and that they had not identified any significant weaknesses in the overall control environment; and

The CPA Use of Resources Assessment undertaken by the Audit Commission in 2005 identified RBK overall as "good - consistently above minimum requirements - performing well". Their detailed classifications which underpin this judgement gave RBK a rating of "good" in respect of Financial Management, Financial Standing and Value for Money, and of "adequate" in respect of Financial Reporting and Internal Control. Further actions are planned to address the management of the Council's strategic and holistic business risks in 2006/2007, including monitoring key risks identified in the team planning process and embedding risk management through a tailored training programme. Also, housing maintenance has seen significant changes in systems, management arrangements, personnel and choice of contractors, and for assurance purposes it is proposed to review the adequacy and application of present controls.

The Director of Finance is satisfied that the system of internal financial control is operating satisfactorily without significant identified weaknesses except where indicated herein.

Performance Management and Reporting

The fundamentals of performance management are becoming increasingly embedded in the way the Council operates. However, strengthening our performance management continues to be a priority for the Council as a tool to improve services. Key aspects of our current arrangements are-

- We have a long-standing approach across all directorates of using Team Plans linked to strategic aims, and a strong culture of appraisal and personal objectives; these links are set out in a Performance Framework. In April 2006 we issued refreshed Team Planning Guidance to reinforce good performance management principles and the crucial role that Teams play in translating Council objectives into action.
- The role of the CDT "Everyone Counts" Group has become well established in maintaining a corporate overview of performance, and "challenging and supporting" managers to improve performance. The 'Everyone Counts' booklet goes to all staff and ensures that the Council has a clear and consistent picture of performance, using a 'traffic light' system to highlight good and poor performance.
- Executive and CDT have agreed the detailed performance framework needed to ensure implementation of the Policy Programme, and a top-level set of indicators has been established along with quarterly reporting of performance to the Executive and the CDT "Everyone Counts" Group.

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- The complementary role of Directorate Management Teams to monitor performance over a wider range of operational business, drawing on Team Plans and performance monitoring at Team level, has been developed further, and a quarterly monitoring cycle established so that corporate top-level arrangements flow out of active monitoring in Directorates.

REVIEW OF EFFECTIVENESS

The Council and Executive both have roles in keeping the Constitution under review and agreeing any necessary changes. The Executive also has a role in terms of considering the external auditor's management letter; receiving reports / recommendations from Overview Panels; considering the annual statement of accounts (which also goes to Council); approving the Performance Plan / Policy Programme on an annual basis (which also goes to Council).

The new Overview Commission and Scrutiny Panel will exercise important roles in terms of overview and scrutiny and a new Audit Committee has been established. During 2005/2006 the Community Leadership and Resources Overview Panel's exercised a role in relation to issues such as budget and council tax setting, oversight of the organisation and personnel, performance and operational working of the Council, performance management, corporate strategy, etc.

The Community Leadership & Resources Overview Panel received a report on Internal Audit's proposed Annual Audit Plan and an Annual Internal Audit Report. In future this will be the Audit Committee. Based on the work undertaken by Internal Audit during the year, the Assistant Director, Audit considers that positive steps are being taken in all those areas where substantial recommendations have been made in instances where the audit opinion was limited or less than full assurance. Taking account of this in conjunction with previous years' work, the Assistant Director, Audit places overall substantial assurance on the systems of internal financial control in place.

A favourable Annual Audit & Inspection Letter was issued by the Audit Commission in January 2006. Under the CPA framework for 2005 the Audit Commission judged the Council to be Improving Well and demonstrating a 3 star overall performance. The IDeA Peer Review in October 2005 reported that the Council delivered some excellent, many good and no poor services. The Council remains one of only a few local authorities with three stars for both education and social care. The most recent Ofsted inspection concluded that Kingston was a very good Local Education Authority with many strengths, few weaknesses, and good capacity to implement the few recommendations made.

Financial Regulations and Contract Standing Orders are subject to regular review, the most recent having taken place in early 2006 with changes effective from 1 April.

IMPROVEMENTS DURING THE YEAR

In the period covered by this Statement, improvements have been made to the Council's arrangements in respect of most areas which had been identified last year as areas in which we could improve, and for which an action plan had been put in place.

SIGNIFICANT INTERNAL CONTROL ISSUES

On the basis of this statement, compiled by officers following a review of the Council's processes, and reviewed by the Council's Corporate Development Team, we are satisfied that the internal control arrangements for the Council are adequate and operating effectively. Whilst progress has been made in 2005/2006, there is still room for improvement in a number of areas previously identified, namely asset management, risk management, business continuity and disaster recovery planning and corporate project management.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by officers, and a plan (as set out in Annex 1) to address weaknesses and ensure continuous improvement of the system is in place.

We are satisfied that these steps will address the need for improvements that have been identified during the year and we will review their implementation and operation as part of our next annual review.

Councillor Derek Osborne
Leader of the Council
28th September 2006

Bruce McDonald
Chief Executive
28th September 2006

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INTERNAL CONTROL ACTION PLAN FOR 2006/2007

<u>Finding</u>	Action	Responsible Officer	Target/Timescale
Need to Clarify risk management roles and responsibilities	Update risk management strategy to identify roles	Head of Treasury Services	June 2006
Embedding risk management across the authority	<p>Tailored training for key officers and revised guidance on strategic, partnership and operational risk management following review of team plans/service risk registers.</p> <p>A corporate business continuity plan will continue to be developed using business continuity consultants. The plan will be used as a template for refining team business continuity plans in 2006-2007.</p>	<p>Head of Treasury Services / Risk Management Group</p> <p>Head of Strategic Services</p>	<p>Training programme in place by September 2006</p> <p>Report to Corporate Development Team in July 2006</p>
Housing maintenance has seen significant changes in systems, management arrangements, personnel and choice of contractors.	For assurance purposes it is proposed to review the adequacy and application of present controls.	Assistant Director, Audit	By September 2006
Need to update and develop the Council's asset management plan	To develop the Council's asset management arrangements linking to the Policy Programme and Capital Programme.	<p>Head of Strategic Services</p> <p>Borough Valuer</p>	Report to Corporate Development Team Autumn 2006