

Statement on Internal Control

1. 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. 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 efficiency, effectiveness and economy.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control (Corporate Governance) which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

Local authorities are required to prepare and adopt a local code of Corporate Governance. A Code of Corporate Governance was adopted by the Council in September 2003 and is subject to regular review. Risk management is a principal element within Corporate Governance, to this end a Risk Management Strategy was adopted in March 2002 and is reviewed annually and endorsed by the both the Leader of the Council and the Chief Executive.

The Code of Corporate Governance covers the principles underpinning governance at the Council, demonstrates how the Council intends to maintain these principles and assists the Council in reviewing its governance arrangements and its effectiveness against the published framework.

The roles of the Chief Executive, the Section 151 Officer, the Monitoring Officer and the Executive Role of Members are defined within part 2 of the Council's Constitution.

2. 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, effectively and economically.

The system of internal control has been in place at the Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

3. Internal Control Environment

Establishment and monitoring of the authority's objectives

The Corporate Performance Plan 'Spotlight' is approved by Members on an annual basis. The plan for 2006/07 was approved in April 2006. Progress in best value and local performance indicators are monitored by both the Corporate Management Team and the Executive on a quarterly basis.

Policy and decision making

The Council's Constitution is available on the Council's website and is reviewed by the Monitoring Officer and Management Team on a regular basis and regular reports are received by Council relating to proposed changes. The Executive are responsible for taking most operational decisions. Key

decisions are published in advance via the forward plan, which is published at quarterly intervals. All Member meetings held by the Council are open to the public, unless the items being discussed are considered to be private under the Local Government Act 1972; these will include staffing and legal matters and those of a contractual nature.

All decisions made either by Cabinet, Committee or Advisory Board can be subjected to further scrutiny via a call-in procedure allowing challenge of the decision being taken within five working days.

Compliance

The Council has a duty to ensure that all activities undertaken are in accordance with the law. This is discharged in part the Council's Financial Procedure Rules and Contract Procedure Rules. Other policies or strategies covering both internal and external issues are available to staff and the public via the Council's intranet and internet sites respectively and can be found on the Council's website at www.tmbc.gov.uk . These polices include:

- Anti-fraud Policy
- Benefits Anti-fraud Policy
- Confidential Reporting Code
- Freedom of Information
- Anti Money Laundering Policy
- Diversity Policy Action Plan
- Race Equality Scheme
- Anti-harassment Policy
- Child Protection Policy

All strategies or policies are allocated to a lead officer who is responsible for the periodic review and updating of each of the policies /strategies.

The Council has a duty to maintain an Internal Audit service. This responsibility is discharged by the Director of Finance. The scope of internal audits shall encompass the examination and evaluation of the adequacy and effectiveness of the Council's system of internal control and the quality of performance in carrying out assigned duties and responsibilities. The outcome of audit results in a level of assurance opinion being reported to management.

The Council's Monitoring Officer and the Section 151 Officer have specific responsibilities to ensure that the Council acts within the law and to prevent maladministration.

The Council has adopted a risk management strategy that sets out the roles of Members and Officers in the identification and minimisation of risk. The risk registers that flow from the strategy cover both strategic and operational risks and are reviewed on an annual basis as part of service and strategic planning. The strategies themselves identify those service risks and categorise them as high and low probability and high and low impact on the authority. Services are then asked to put plans in place in order to reduce the probability of those risks occurring and to reduce the service impact if they do occur. To ensure that risk is considered all reports presented to Members must include a risk assessment of the actions within the report. This assessment also covers legal and financial and value for money considerations.

Chief Officers are required to complete a Service Assurance Statement to confirm that risks have been identified and assessed, and sound business arrangements operate within their Service.

Members are informed of the Council's claims experience via reports submitted to the Audit Committee on a six monthly basis. The reports include brief details of each claim and, where

appropriate, details of action taken by the Council to prevent or reduce the possibility of any further such claims.

Use of Resources

The effective targeting and usage of our resources has always been a corporate priority, and this is achieved in several ways.

- Through the use of service planning, which determines the service delivery models for the Council as a whole
- Through the use of a budget prioritisation model developed in 2004 and reviewed on an annual basis. The model examines the services and budgetary links to the Key and Corporate Priorities. The results of the model used for the 2006/07 budget showed that 62% of the Council's resources were targeted to the top 25% of scored services.
- Other methods of controlling the use of resources are listed within the Financial Management and Performance Management sections of this statement.

The Council is subject to an annual Use of Resources Review conducted by the Audit Commission. This review consists of five key lines of enquiry covering Financial Reporting, Financial Management, Financial Standing, Internal Control and Value for Money and a direction of travel assessment.

Financial Management

In order to maintain its financial management the Council operates budgetary control procedures which are used in conjunction with a Medium Term Financial Strategy (MTFS).

Budgetary control of both revenue and capital expenditure is carried out by Services on a monthly basis with reports covering the major areas of expenditure and income being presented to the Finance and Property Advisory Board at their scheduled meetings. These reports detail current and future variations and provide details of any management action to be taken where appropriate.

Our MTFS ensures longer term targets and assumptions about inflation and government grant are taken into account when annual budgets are established. The MTFS spans a six year period and provides a sustainable basis for the delivery of resources. This provides for the development and improvement of the Council's key services whilst ensuring Council Tax increases are kept to reasonable levels and our financial reserves can be maintained at an appropriate level. The MTFS is regularly reviewed as part of the budget review process and when significant changes occur to ensure its assumptions and financial projections remain soundly based.

Internal Audit regularly reviews the financial accounting systems to ensure that adequate safeguards are in place in order to protect the Council from financial irregularity. The Council's website has a section dedicated to Combating Fraud and this includes provision to report irregularities through the Confidential Reporting Code. In addition, the Council has a Benefits Investigation Team to investigate allegations of Benefits irregularities.

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 Committee charged with the responsibility for ensuring such a review is undertaken is the Audit Committee. The review is informed by the work of the internal audit section and the senior managers within the authority who have responsibility for the development and

maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

A new CIPFA Code of Practice for Internal Audit in the United Kingdom was issued in December 2006. The Internal Audit Section undertakes work in accordance with this code and are reviewing the checklist to benchmark compliance against the code. This review will result in an action plan to identify further work to be undertaken in order to be fully compliant with the code. Further to this there is a requirement for the Internal Audit Section to be assessed by an external body on behalf of the Audit Committee which will be used to inform its approval of its internal control effectiveness. It is hoped that this will be undertaken in 2007/08 through a quid pro quo arrangement with the other Kent Districts.

The Chief Internal Auditor presents an annual report to the Audit Committee which covers the audits undertaken the recommendations made and the actions taken to cover those recommendations.

A risk model is used to formulate a three-year plan from which the annual workload is identified. Both the three-year and annual plans are reported to, and agreed by Management Team and the Audit Committee at the beginning of each financial year with progress reports of the audit findings being reported to the Audit Committee on a regular basis where they are considered to a detailed level.

External Audit reports provided by the Audit Commission are reported to the Audit Committee, with the exception of the Annual Governance Report, covering the Statement of Accounts which goes to the General Purposes Committee for consideration.

Services have reviewed their risk registers in order to identify any known risks within their operational remit. These have been subsequently forwarded to the Councils Insurance Officer for inclusion onto an Operational Risk Register.

In 2004 the Council underwent its first Comprehensive Performance Assessment (CPA) by the Audit Commission and as a result the Council was awarded 'Excellent' status. Despite this, the Council recognised that it could still improve and has set targets for further improvement which are monitored by the Council's Corporate Management Team with reports being presented to the Cabinet.

The Council was subject to an annual review of its 'Use of Resources'. The results were issued in mid March and reported that the Council achieved a level 3, which is defined that the Council is *"performing well, consistently above minimum requirements"*, with noticeable practice being identified under Financial Reporting and Value for Money. A report from the Audit Commission will be issued in due course and presented to the Audit Committee during 2007/08.

The Cabinet and the Management Team have been advised of the implications arising from the review of the effectiveness of the system of internal control by the Authority, and plan to address weaknesses and ensure continuous improvement of the system is in place where appropriate.

During 2006 the General Purposes Committee received the annual letter from the Local Government Ombudsman; it reported that fewer complaints had been received than in previous years and no findings of maladministration had been made.

5. Improvements During the Year

Several improvements have been made during the year in relation to the corporate priorities and best value indicators. These are shown within 'Spotlight' due to be published in April 2006.

The Council has implemented the recommendations of the Council Tax, Business Rates and Housing Benefits Best Value Review and commenced the upgrading of the Council's Reception Areas to improve customer contact.

The Council has reviewed its disaster recovery plans for services. These are to be upgraded to 'Business Continuity Plans' (BCPs) in light of the Civil Contingencies Act 2004; the requirements of which the Council has embraced. The BCPs will demonstrate how the Council will continue to provide key services at the time of local or national catastrophe. The Act defines local authorities as being Category One Respondents. In the event of a civil emergency, local authorities have a duty to be able to provide their normal services in what may be considered as being abnormal circumstances. In order to ensure that this Council is able to fulfil that duty a Business Continuity Officer Study Group was formed. The group obtained details of the various functions performed by each Service and each section within those Services and considered which of those functions were –

- Mission Critical - (impacted within 24 hours)
- Critical - (impacted within 1-3 days)
- Priority - (impacted within 3-7 days)

Initially a Business Continuity Plan (BCP) will be prepared for each function identified as being within one of the three categories mentioned above and, at the conclusion of the exercise; a BCP will have been prepared for all of the Council's functions. The plans will be reviewed periodically to ensure that they remain relevant and that they address new risks as and when they are identified.

6. Internal Control Issues.

During 2006/07 three Internal Audit reports concluded with Limited Assurance (the lowest level) of adequate controls, these were;

- Child Safety Equipment
- Flexible Working
- Cash Kiosks

The circumstance causing these limited assurances have been reported to the Members of the Audit Committee. Action plans from these reports have been completed by the responsible Chief Officer in order mitigate the risk.

Following the review of Service Operational Risk Registers no High Probability/High Impact Risks have been identified for inclusion on this statement

Service Assurance Statements have been returned from all Chief Officers with no significant internal control issues having been identified.

We have not received any External Audit Reports received that require inclusion on this statement.

7. Emerging Risks Identified.

There are a number of risks that have been identified for both the current and future financial years. In identifying these risks, the Council has also stated how it plans to mitigate these risks. These are:

- Housing Private Finance Initiative Bid – This is a joint bid with Kent County Council and nine other District Councils to provide specialist housing needs. A number of risks were identified and have been addressed to the satisfaction of the Audit Commission.

- Changes to the Financial Accounts – The Statement of Recommended Practice (SORP) has undergone a number of significant changes that affect both the 2006/07 and 2007/08 accounts. These changes represent a possible risk to the authority through the possible differing interpretations of our on officers and those of the Audit Commission when the accounts are audited. These risks have been minimised through a review of the guidance notes issued for the SORP and regular discussions with the Audit Commission.
- Partnership Governance Arrangements – Over the forthcoming year officers will review the Governance Arrangements covering the partnership within the authority in order to ensure that they exist and meet the requirements of the new Annual Governance Statement that replaces this statement from 2007/08.
- Comprehensive Spending Review 2007 - The Council is aware that the outcome of the Comprehensive Spending Review in 2007 may result in future financial settlements from Central Government being adversely affected. The Council will review its Medium Term Financial Strategy when the outcome is known and take appropriate action to ensure that financial stability is maintained and that net expenditure is kept within the scope of available resources.

Signed _____

D. R. Hughes CPFA
Chief Executive

Dated _____

Signed _____

Councillor M. S. Worrall
Leader of the Council

Dated _____