

C. STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

Medway Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. Similarly it must ensure that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Medway Council also has 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, Medway Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of Medway Council's resources and which includes arrangements for the management of risk.

The 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 Medway Council's policies, aims and objectives. It also aims to evaluate the likelihood of those risks being realised, the impact of such an outcome, and to manage them efficiently, effectively and economically.

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

The Internal Control Environment

The key elements of the internal control environment are:

- Clear business objectives and priorities, established in liaison with our strategic partners and published in the Community Plan and Medway's annual Performance Plans. They are underpinned by a set of Core Values, together with which they define the purpose of everything that we do.
- Medway's governance arrangements, with the structure of Leader, Cabinet, decision making and Overview and Scrutiny Committees, and a Scheme of Delegation through Corporate Management Team to Medway's officers for the implementation of Member decisions.
- Codes of Conduct and a set of Rules, published in Medway's Constitution and supplemented where appropriate throughout the authority by more detailed guidance, policies and procedure notes. Ensuring compliance with these is a continuous management responsibility but independent reviews are carried out by internal and external auditors and other review agencies.
- Managers identify what they perceive as their most significant strategic, operational and financial risks and these are published in their Service Plans which are then incorporated into directorate business plans. A Strategic Risk Management Group has been tasked with taking the lead in developing this process further, including the incorporation of cross-directorate analysis, a clear method for monitoring and updating the risks, and the arrangement of further training for managers where necessary.

- A culture of ensuring economical, effective and efficient use of resources which is engendered through Medway's core value "Obtaining Value for Money" and reinforced through many aspects of the Council Rules. The authority's activities are subjected to an ongoing programme of reviews aimed at achieving continuous improvement.
- Specific rules and written procedures for the management of Medway's finances and assets. There is a well-established devolved financial management system in which managers are responsible for controlling their budgets and reporting upwards, ultimately to Cabinet and Overview and Scrutiny Committees.
- A set of key performance indicators against which Medway's performance is measured and reported monthly to senior management and quarterly to Members.

Review of Effectiveness

Medway's Management Team has responsibility for directing the development and maintenance of the internal control environment, and also for ensuring that a review of its effectiveness is conducted at least annually. The review leads to this Statement of Internal Control.

The 2006 review has been informed by:-

- the work of Internal Audit, who have also reported to the Audit Sub Committee throughout the year;
- the work of the external auditors;
- the work of other external review agencies;
- internal service reviews; and
- the Comprehensive Performance Assessment carried out on behalf of the Audit Commission.

The Council has a responsibility for satisfying itself of the effectiveness of the system of internal control and achieves this by considering and approving the Statement of Internal Control.

Significant Internal Control Issues

Each of Medway's Directorates has identified the most significant known or foreseeable risks to the achievement of its objectives, and has taken account of these in its business plans in order to strengthen internal control where appropriate. These will be monitored and reviewed along with other operational and financial risks on a regular basis.

Medway Council's review has identified:-

- a good overall 3 star rating and acknowledgement that the council is improving as assessed by the Audit Commission as part of the Comprehensive Performance Assessment (CPA). The CPA process also recognised that scores for adult social care, housing benefits, cultural services, housing services and environmental services had improved;
- sound financial control; and
- efficient use of resources.

The internal review process has identified a small number of areas where control does need to be strengthened, including:

- there have been major improvements in risk management through the production and Member endorsement of the risk strategy but more needs to be done to demonstrate that risk management has been 'embedded' into day-to-day operations.
- the Council actively investigates allegations of fraud and corruption and these have resulted in court convictions. Although various 'standards related' policies are in place, some staff lack awareness or understanding of them, and therefore they need to be communicated more widely. Similarly, there is a need to ensure that the Council's whistleblowing policy is made available to external contractors.

In all these areas management action plans have been produced to improve control.

Judith Armit
Chief Executive

Rodney Chambers
Leader