

STATEMENT ON INTERNAL CONTROL 2006/07

1. BACKGROUND

The council is required to publish an annual statement on internal control under the provisions of Regulation 4 of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and also the CIPFA Code of Practice on UK Local Authority Accounting 2006: A Statement of Recommended Practice (SORP).

2. SCOPE OF RESPONSIBILITY

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

3. 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 Southwark 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 Southwark Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

4. THE COUNCIL'S FRAMEWORK OF INTERNAL CONTROL

The following section describes the internal control framework that was in place during the year.

- ***Establishing and monitoring the achievement of the authority's objectives***

The Community Strategy sets out three strategic themes (people, places and services) and the Corporate Plan, which is agreed by the council annually, and identifies how the council will deliver against them. These strategic themes are in turn addressed in the Policy and Resources Strategy which aligns the business and budget planning process and enables members to support, fund and deliver their medium term objectives by matching resources to priorities.

The Corporate Plan includes key projects and performance indicators. These, through milestones and actions, are reported via a quarterly performance report to executive. Performance is also discussed by all scrutiny committees in relation to their respective areas of responsibility.

A ten-year capital programme has been agreed which is aligned to and includes priorities that are articulated in the Community Strategy. The capital programme includes contingencies for urgent and unavoidable items.

The authority has a four-year medium-term financial strategy which includes a strategy on reserves and balances to mitigate the risks inherent in the extensive regeneration programme.

The business and budget planning process is an annual rolling programme which ensures that we capture changes and emerging trends as well as monitor achievement against existing objectives.

- ***The facilitation of policy and decision making***

The council's constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

All councillors meet together as the council assembly. These meetings are normally open to the public unless matters are discussed which must be kept confidential and at them councillors decide the council's overall policies and set the budget each year.

The executive is the part of the council which is responsible for most day-to-day decisions. The executive has to make decisions which are in line with the council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the council assembly as a whole to decide. When major decisions are to be discussed or made, these are published in the executive's forward plan in so far as they can be anticipated. Both council assembly and executive meetings are normally open to the public unless matters are discussed which must be kept confidential.

Since 1 July 2004, the council has allowed individual executive decision making, whereby decisions on certain executive functions are taken by an individual member of the executive, rather than by the executive as a whole. The benefits are that decision making is speeded up, the size of agendas of the full executive is reduced, and greater responsibility can be taken by individual members for their areas.

The council has established eight community councils, which act as a focal point for discussion and consultation on matters that affect the borough. There is also an overview & scrutiny committee and five subcommittees that support the work of the executive and the council as a whole. They allow citizens to have a greater say in council matters by holding public inquiries into matters of local concern. The overview and scrutiny committee may also be consulted by the executive or the council assembly on forthcoming decisions and on the development of policy.

The main policy documents of the council as set out in the policy and budget framework are approved either by the council assembly or by the executive and action to facilitate the implementation of policies is generally delegated to strategic directors and delegated further in line with the departmental schemes of management and the Scheme of Delegation for Financial Authority and Accountability. There is robust corporate and departmental support to members in policy and decision making, with report templates to help ensure that members are presented with the appropriate information to make decisions – including the key issues for consideration and advice on financial and legal implications. All member level decisions are made on the basis of reports and recorded.

- ***Ensuring compliance with established policies, procedures, laws and regulations***

Strategic directors are primarily responsible for compliance with established policies and the council's own procedures, breach of which could give rise to legal challenge and loss, within their service area. They are required to set up procedures to ensure compliance, taking advice as appropriate. These procedures are reviewed by internal audit and some areas are subject to external inspection.

Responsibility for ensuring compliance with new procedures introduced rests with the relevant strategic director who provides appropriate training and information. This is provided jointly with representatives of the legal and democratic services department where the new policy procedures, laws and regulations reflect new legislation.

The strategic director of legal and democratic services is responsible for certain statutory functions such as acting with the standards committee to maintain legal standards and for the council's whistle blowing policy. As monitoring officer, she is also responsible for ensuring that decisions made are lawful and fair. The finance director, as the council's section 151 officer, is responsible for ensuring that the administration of the council's financial affairs is in compliance with statutory obligations and with all relevant professional codes of practice and for ensuring that decisions made are lawful and financially prudent. Either officer may decide to report to the council assembly or executive if they consider that any proposal, decision or course of action is unlawful, would give rise to maladministration, would involve incurring unlawful expenditure or would be likely to cause a loss or deficiency.

Individual responsibilities for compliance are embodied in the performance management scheme.

- ***Embedding risk management in the activity of the authority***

The council's risk management strategy, which was formally adopted by the Executive in June 2005, describes how the authority manages the risks inherent in achieving its objectives. The authority uses a range of methods for identifying, assessing and managing its risks, as well as implementing a series of actions to ensure that risk management becomes embedded in the culture of the organisation.

Corporately, the finance director is responsible for risk management, with the executive member for resources taking responsibility at member level and the newly-formed audit committee overseeing the risk management process. Strategic directors are responsible for risk management in their departments and each department has a risk champion who provides guidance to managers in identifying and managing their business risks, all of which are recorded and monitored using the corporate risk management system, JCAD.

Risk management is an integral part of business planning and project management across the council. Business planning templates and guidance notes require consideration of current risks and potential ones over the medium term, and how they are managed and mitigated. Risk management is also an important element of the Prince2 project management methodology, which has been adopted for all the council's projects.

The council's internal auditors use a risk-based approach to compiling the annual audit plan and planning individual audits. They also review the risk management process itself.

- ***Ensuring the economical, effective and efficient use of resources, and securing continuous improvement***

The council's Efficiency Strategy was agreed in September 2006 alongside the Medium Term Financial Strategy to ensure that Southwark has a robust four year resources framework within which business plans are delivered. This approach recognises efficiency as a shared responsibility that is integral to the council's policy and resources strategy.

The Efficiency Strategy incorporates five themes:

- Sustaining efficiency
- Adopting new techniques to assist in driving out efficiency gains
- Challenging the limits that are sometimes placed on achieving efficiency gains
- Removing barriers to realisation of benefits from the efficiency programme
- Making the most of opportunities.

The plan of work that follows from the strategy is structured on four work streams, people, process, property and procurement. Activity is at three levels: strategic, service/management and operational.

Roles and responsibilities are clearly assigned by the strategy, with governance largely focussed on:

- the Divisional Service Managers Efficiency Board (DSM EB), with the task of identifying and driving through significant opportunities for efficiency gains
- the Corporate Management Team, translating the mandate provided by the Executive and approving the programme identified by the DSM EB.

The executive member for resources has portfolio responsibility for the efficiency programme and the strategic director of customer & corporate services is the lead officer.

- ***The financial management of the authority and the reporting of financial management***

The financial management of the authority is ensured through a framework of financial regulations as set out in the Financial Standing Orders section of the constitution and in Managing@Southwark (the Business Managers' Handbook), administrative procedures and a system of delegation and accountability and by the provision of regular management information, including regular revenue and capital monitoring to executive.

- ***The performance management of the authority and the reporting of performance management***

Performance is monitored at all levels on a regular basis. The corporate plan includes key projects and performance indicators, plus project milestones. Performance is monitored on an exception basis quarterly at meetings of the executive, scrutiny committees and chief officer team. The quarterly performance reports use a traffic light system and include action plans to address underperformance where relevant. At departmental level, departmental business plans form the basis of departmental monitoring. This ensures that performance, budget, risk and project delivery issues are all covered. Departmental level performance is monitored at the senior management team meetings, and there are regular meetings between the strategic director and relevant executive member. The

performance management framework is based on a hierarchy of indicators to ensure a key split between strategic deliverables and more specific indicators at a departmental level.

5. REVIEW OF INTERNAL AUDIT

Regulation 6 of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, requires the council to review the effectiveness of its system of internal audit once a year. The council's system of internal audit was reviewed with reference to the CIPFA Code of Practice for internal audit in local government, which concluded that the system of internal audit showed strong compliance with the Code of Practice (minor exceptions have been addressed through the implementation of an audit committee). Partial compliance was identified in one area, namely the code requirement that '*the Head of Internal Audit is managed by a member of the corporate management team*'. Whilst the Head of Audit and Risk reports directly to the Assistant Finance Director (Risk & Financial Control), there is a regular liaison between the Head of Audit and Risk and the Finance Director. Therefore, whilst not strictly in line with the code, it is considered that this provides an adequate reporting mechanism to comply with the essence of the code to allow serious audit issues to be dealt with in an appropriate manner.

6. REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS

The council is responsible for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the senior managers within the authority who have responsibility for the development and maintenance of the internal control environment. It is also informed by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

- the council's internal audit coverage, which is planned using a risk based approach. As part of the council's monitoring arrangements, the internal auditors, PricewaterhouseCoopers, meet monthly with council staff to report the outcomes of reviews and internal control issues. In their annual report, they provide an overall assessment on the adequacy of the council's internal control environment and areas of weakness to be addressed.
- External audit express an opinion on the adequacy of the internal audit service and in their annual letter comment on financial aspects of corporate governance and performance management and other reports. The Audit Commission also carry out the comprehensive performance assessment (CPA) and in their annual letter of March 2007, they stated that the council had another successful year and has continued to deliver service improvements in key corporate priority areas. This is reflected in their conclusion that the council is improving well and is demonstrating a three-star overall performance.
- The newly formed Audit Committee will agree the annual audit plan and will receive, consider and challenge the internal auditors' Annual Audit Report, the District Auditor's Governance Report, Use of Resources assessment and Annual Audit and Inspection Letter. The committee will also consider reports on risk management, fraud issues, and other internal control/governance issues.

- The monitoring officer has a duty to maintain the constitution, which is reviewed each year by the council at its annual meeting, and to promote and maintain high standards of conduct through the provision of support to the standards committee.
- Annual self-assessment declarations on the adequacy of the internal control framework in departments, which include action plans to address significant weaknesses in internal control arrangements, are made by strategic directors.

Following the review of the effectiveness of the system of internal control, a plan has been drawn up to address weaknesses and ensure continuous improvement.

7. SIGNIFICANT INTERNAL CONTROL ISSUES

The table which follows identifies those issues that represent the most significant exceptions to the generally sound system of internal control operating within the council during the year ended 31 March 2007. For each exception identified, the council's action to resolve the problem is recorded alongside.

Control Exception	Agreed Action
<p>Over the past year the authority has undergone a major restructure to enable it to better meet the increased demands and expectations facing it. To build on the improvements already made, further work is required to enhance governance and accountability across the authority with partnership working being fully captured in the performance management regime. This is particularly the case with anticipated budgetary pressures arising from uncontrollable demand for services (especially in health and social care), the extensive regeneration programme and in the context of reduced resources under Comprehensive Spending Review 2007.</p>	<p>An enhanced approach to performance management has been agreed which will include quarterly performance review 'clinics' to tackle key issues; further integration with business planning, including a review and update of business planning guidance; and greater clarity of roles in the process. A programme of policy reviews is underway at the request of the executive which requires each strategic director to review and update the policy framework of key services, including strategies and practices and the costs of, and outputs from, discretionary services.</p> <p>The medium term financial strategy which was extended from three to four years and which aligns financial priorities with local priorities as set out in the community strategy and corporate plan is being refreshed.</p>
<p>Audit reviews in the past year have identified areas for improvement in contract and project management in several areas and in the management of our partnership arrangements, including tenant management organisations and grants to third party organisations.</p>	<p>Following the creation of the new Major Projects department, the interim strategic director will review the project management arrangements for major projects. In addition, reviews of project activities by the Audit Commission and PricewaterhouseCoopers are programmed for the coming year.</p> <p>Improvements in the monitoring of grants to third parties are underway in departments, and the arrangements for monitoring and supporting tenant management organisations are to be revised.</p>
<p>There are strong imperatives to improve office accommodation within the authority, including the poor state of offices occupied by some staff and the need to provide modern, fit-for-purpose accommodation to support the development of integrated services, for example, children's services.</p>	<p>The council has agreed an office accommodation strategy which will enable further consolidation of functions and help to promote more efficient working and enhanced performance, through integration of services, the co-location of significant numbers of staff and a reduction in the council's carbon footprint.</p>
<p>A review of the new IT strategy identified an inclusive approach but highlighted a number of areas for consideration, which</p>	<p>As part of the new IT strategy, the management and support of ICT has been centralised in the</p>

Control Exception	Agreed Action
<p>included clarification on how distributed data and systems would be managed and the role of the IT function within Southwark.</p> <p>Reviews of individual IT systems identified improvements needed in access and security of data.</p>	<p>new information services division (ISD) of the corporate and customer services department. All IT security, risk management and business continuity planning will now be covered centrally. A new contract with SERCO, starting in July 2007, will include the introduction of a CITRIX system, which will provide improved security.</p> <p>Data management, including standards, policies and procedures is under review by the corporate knowledge management section of ISD.</p>
<p>The internal control environment within the authority has continued to improve and work is ongoing to further improve compliance with all financial regulations, policies, procedures and protocols throughout the authority and there remains scope to further improve overall financial discipline and control</p>	<p>Restructuring within the financial management services department has resulted in greater focus on both audit and governance matters which will help to sustain improvements being made. In particular, additional resources have now been allocated to the authority's counter-fraud arrangements, which should be recognised by improved results from the on-going national fraud initiative exercise.</p> <p>Action plans to address the issues raised in internal audit reviews have been agreed and are in the process of being implemented.</p>

Signature of Chair of Audit Committee Date.....

Signature of Chief Executive Date.....

Signature of Finance Director.....Date.....

Signature of Leader of the Council.....Date.....