

BABERGH DISTRICT COUNCIL

FROM: HEAD OF FINANCE

REPORT NUMBER **G22**

TO: OVERVIEW AND SCRUTINY
(STEWARDSHIP)

DATE OF MEETING 5 JUNE 2007

STATEMENT ON INTERNAL CONTROL (SIC) 2006/07

1. PURPOSE OF REPORT

1.1 To consider the Statement of Internal Control for 2006/07 and appoint 2 Members from this Committee to review this and the supporting evidence.

2. RECOMMENDATIONS

2.1 That a small Member group reviews the 2006/07 Statement on Internal Control and supporting evidence.

2.2 That the Committee gives its views and comments on sections 4-6 of the SIC attached in the Appendix.

2.3 That the Committee notes the position on the adequacy and effectiveness of Internal Audit.

The Committee is able to resolve these matters.

3. FINANCIAL IMPLICATIONS

3.1 No financial implications.

4. RISK MANAGEMENT

4.1 This report links to Significant Business Risk No. 7 – Financial, Performance & Risk Management.

4.2 The key risks are summarised below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
The Annual Accounts cannot be signed off without the Statement on Internal Control also being approved and signed off.	Low	Critical	The Statement has been prepared and is attached to this report for review and approval.
The Statement may not be an accurate reflection of the effectiveness of the Council's internal control arrangements.	Low	Critical	The Statement has been prepared using a database designed for the purpose and is fully supported by relevant documentation and evidence.

5. **KEY INFORMATION**

- 5.1 The Accounts and Audit Regulations require the publication of a Statement on Internal Control (SIC) within the Statement of Accounts. The statement is a key aspect of the Council's risk management and internal assurance framework and requires a review of the Council's whole system of internal control including corporate governance and risk management.
- 5.2 The purpose of the SIC process is to provide a continuous review of the Council's internal control and risk management systems, so as to give assurance on their effectiveness and to produce an action plan to address identified weaknesses.
- 5.3 Babergh's statement is based on a best practice model. It must be signed by the Chief Executive and Chairman of the Strategy Committee. Best practice also requires a Member group to separately review and approve the SIC.
- 5.4 The SIC is based on extensive assessment and evidence that has been gathered by Internal Audit over the last 2 months. It also reflects issues identified by the Audit Commission in their Audit & Inspection and Use of Resources work.
- 5.5 Regard has also been had to the significant business risks (see separate reports on today's agenda). There will, of course, be issues identified in the SIC that do not feature in our agreed business risks as they are not judged to be sufficiently significant. We will, however, need to monitor the significance and links between these two areas on an ongoing basis.
- 5.6 This Committee is requested to give views on the attached SIC in relation to the following in order to assist the Member Group.
- Any aspects of the Internal Control Environment (section 4 of Appendix) that Members feel need further consideration in terms of weaknesses and further improvement.
 - Any comments on the effectiveness of these (section 5)
 - Any views on the weaknesses identified by officers and whether there are any omissions? (Section 6)
 - Appendix A to the SIC, which updates progress on issues identified in the previous year
- 5.7 The Member Group needs to meet before the 15th June to enable the SIC to be circulated with the 2006/07 accounts to Council for approval on the 26th June.
- 5.8 A further requirement of the Accounts and Audit Regulations this year is that there is a review of the adequacy and effectiveness of Internal Audit submitted to Members as part of their approval of the SIC.
- 5.9 Key information in relation to this is provided below:
- The Organisational Review in 2006 combined Internal Audit and Benefit Fraud to increase resilience and enhance fraud and investigation work
 - During 2006/07 there was a clear workplan for Internal Audit, approved by this Committee, and a full staffing establishment
 - All fundamental systems and high priority work was completed

- The Audit Commission's review of Internal Audit concluded that they could place reliance on their work and that they were complying with the CIPFA Code of Audit Practice. Some areas for improvement were identified and these are being progressed

5.10 Based on the above, it can be concluded that the Internal Audit Function is adequate and effective. Further improvement through consolidating the work of the combined Audit and Fraud Team and progressing the areas identified by the Audit Commission is being actively pursued.

5.11 It should also be noted that shared service options for Internal Audit are currently being assessed with a view to determining whether a joint audit service with other councils would be beneficial. Timelines for outcomes in relation to this are not yet agreed but it would be hoped that a decision on this would be possible during 2007/08.

6. **APPENDIX**

Appendix 1 – Statement on Internal Control 2006/07

7. **BACKGROUND PAPERS REFERRED TO:**

None.

CONTACT: Barry Hunter, Head of Finance/
Doug Bacon – Interim Audit Manager

DIRECT LINE: 01473 825819/825822

STATEMENT ON INTERNAL CONTROL 2006/07

1. Introduction

- 1.1 The Accounts and Audit Regulations require the Council to conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control each year with the Council's financial statements. This also encapsulates the council's Corporate Governance arrangements.

2. Scope of Responsibility

- 2.1 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. The Council also has a duty under the Local Government Act 1999 to make arrangements for continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 2.2 In discharging this overall responsibility, the Council has to ensure that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

3. The Purpose of the System of Internal Control

- 3.1 Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities. The framework for corporate governance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society for Local Authority Chief Executives and Senior Managers (SOLACE) identifies three underlying principles of good governance, namely:
- Openness and inclusivity
 - Integrity
 - Accountability
- 3.2 The principles of corporate governance should be embedded in the culture of each local authority. Furthermore each local authority has to be able to demonstrate that they are complying with these principles. To achieve this, the framework document recommends that all local authorities should develop a code of corporate governance covering the following elements:
- Community Focus
 - Service Delivery Arrangements
 - Structures and Processes
 - Risk Management and Internal Control
 - Standards of Conduct

- 3.3 The Council formally adopted a local code of corporate governance in 2002 to ensure that good working practices are supported and followed. This sets out the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, including those in respect of risk management and internal control.
- 3.4 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risks that might impact on the achievement of policies, priorities, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is, therefore, based on an on-going process that is designed to identify and manage these risks, to evaluate the likelihood of them being realised and their impact.
- 3.5 This statement covers the systems of internal control that have been in place at the Council for the year ended 31st March 2007 and up to the date of approval of the annual accounts.

4. The Internal Control Environment

- 4.1 The requirement to have a sound system of internal control applies to all of the Council's activities. The internal control environment within the Council consists of a number of different elements, which taken together contribute to the overall corporate governance framework. The key elements of the Council's internal control environment are as follows:
- A constitution, which sets out how the Council operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, transparent and ensure accountability to local people.
 - An overall policy and budget framework. Within that framework decision-making is delegated to the Strategy Committee or to officers under delegated authority.
 - Two Overview and Scrutiny Committees, which support and scrutinise the work of the Strategy Committee and the Council as a whole. One of these acts as the Audit Committee and has responsibility for Risk Management.
 - Reviews by external auditors and inspectors, external agencies, Internal Audit and other internal reviews, that identify improvements in relation to the economic, effective and efficient use of resources and in the way in which functions are exercised.
 - Services are delivered by trained and experienced staff. All posts have a detailed job profile and targets that are linked to the Corporate Plan. Training needs are identified through the appraisal system and addressed through a corporate training plan.

- A designated Monitoring Officer, who ensures lawfulness and fairness of decision-making. After consulting with the Head of Paid Service and Chief Finance Officer, the Monitoring Officer will report to the full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.
- The Council has designated The Head of Finance as Chief Finance Officer in accordance with section 151 of the Local Government Act 1972. The financial management of the Council is conducted in accordance with the financial regulations and procedures set out in Part 4 of the Constitution.
- An Internal Audit Section, which operates in accordance with the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK' (The Code).
- A performance management framework. The system is driven by the Corporate Plan, which focuses attention on corporate priorities. This includes Priority Action Plans that are cascaded down into individual staff targets. Achievement against those targets is monitored by officers. The Overview and Scrutiny Committees monitor and scrutinise progress against Performance indicators and targets within the corporate plan and consider and recommend corrective action where necessary on a quarterly basis.
- A Risk Management Strategy and a strategic/significant business risks register that sets out the Council's attitude to risk and documents the responsibilities for managing risks throughout the Council.
- Corporate and divisional business continuity plans are in place, and will be reviewed as part of and following a series of business continuity workshops being co-ordinated by the countywide joint emergency planning unit.
- A wide variety of systems, policies and procedures are in place.

5. Review of Effectiveness

5.1 The review of the effectiveness of internal control is informed by the work of internal auditors and senior managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by external audit and other review agencies and inspectorates.

- 5.2 Internal Audit is responsible for monitoring the quality and effectiveness of the systems of internal control. Audits are undertaken in accordance with a workplan agreed by Members and a report on each one is submitted to the relevant head of service, service manager and external audit. A management summary and action plan is submitted to the Chief Finance Officer and relevant Corporate Director. Reports include recommendations for improvements, the implementation of which are followed up on a regular basis. An annual report on the work of Internal Audit is considered by the Overview and Scrutiny (Stewardship) Committee.
- 5.3 From the work undertaken in 2006/07, Internal Audit has provided satisfactory assurance that the internal controls are fundamentally sound and accord with proper practice.
- 5.4 The work of the Internal Audit section is subject to regular assessment by the Council's external auditors. Internal Audit act upon any recommendations made by the external auditors for improvements to internal audit processes or procedures.
- 5.5 The last external auditors review and report in December 2006 indicated that they could place reliance on the work of Internal Audit and that it was acting in accordance with the code. The adequacy and effectiveness of Internal Audit was considered as part of the Organisational Review in July 2006 and arrangements strengthened by combining the Internal Audit Team with the Benefit Fraud Team to create a new Audit & Fraud Team.
- 5.6 The Audit Commission carried out their 2006 use of resources assessment assessed the Council as 'performing well – consistently above minimum requirements' – a level 3 score overall. The scoring levels are as follows:
- 1 = below minimum requirements – inadequate performance
 - 2 = at only minimum requirements – adequate performance
 - 3 = consistently above minimum requirements – performing well
 - 4 = well above minimum requirements – performing strongly.
- 5.7 The assessment covers the following areas and the comparison with 2005 for each of the five separate themes is shown below:

	2005	2006
Financial reporting	3	3
Financial management	3	2
Financial standing	3	3
Internal control (incl. Risk Management)	2	2
Value for money	3	3

5.8 The Overview and Scrutiny Committees monitor the decisions of the Strategy Committee and can 'call-in' a decision, which has been made but not yet implemented. There were no 'call-ins' during the year but the procedures and system of call-in was reviewed.

6. Significant Internal Control Issues

6.1 The review of the effectiveness of the system of internal control has identified some internal control issues, which are shown in the table below along with the action plans that are in place to address them.

Issue	Action Proposed
Strengthen the Council's Corporate Governance arrangements taking account of an Internal Audit review in 2006/07	<ul style="list-style-type: none"> • Update the Local Code in 2007/08. • Continue to provide training and guidance on specific issues through Member and officer workshops.
Corporate Business Planning and performance management systems.	<ul style="list-style-type: none"> • Address issues identified by the Audit Commission in their Use of Resources assessment and other reports. • This includes identifying non-priorities, service standards, managing complaints and diversity and equality issues in meeting community needs. • Continue to develop SMART Action plans and Service Plans related to corporate priorities. • Monitor and report Corporate Plan outcomes and achievements. • Implement the actions agreed through the countywide Performance Management capacity improvement project.
Other key Use of Resources improvement opportunities	<ul style="list-style-type: none"> • Implement an approved action plan to: <ul style="list-style-type: none"> ➤ Further embed risk management throughout the organisation ➤ Improve Asset Management ➤ Further improve Value for Money
Business continuity	<ul style="list-style-type: none"> • Review Corporate and divisional business continuity plans as part of and following a series of business continuity workshops being co-ordinated by the countywide joint emergency planning unit.

7. Conclusion

7.1 None of the areas highlighted in the previous table are judged as being significant. However, action is needed to improve and strengthen current arrangements in the areas indicated. Management will need to monitor and review these as appropriate. Therefore, it is concluded that a sound system of internal control has been in place within the Council throughout the year ended 31st March 2007 and up to the point when this Statement is published with the 2006/07 Statement of Accounts.

Patricia Rockall
Chief Executive

Date: _____

Nick Ridley
Chairman of Strategy Committee

Date: _____

Update on Significant Internal Control Issues 2005/06

Issue	Proposed Action	Action Completed
<p>Continue to strengthen the Council's Corporate Governance arrangements by providing training on Corporate Governance to all key officers and Members.</p>	<ul style="list-style-type: none"> • Continue to provide training on specific issues through Member and officer workshops. • Update the Local Code in 2006/07 based on an Internal Audit review. 	<p>The delayed new Code of Conduct for Members comes into effect on 3 May 2007. Training has been included in the Member Induction Programme. Members will also be asked to consider making such training mandatory.</p> <p>Internal Audit Review undertaken but code not being updated until 2007/08 as new CIPFA/SOLACE guidance has just been published</p>
<p>Continue to improve the performance management system.</p>	<p>Further SMART Action plans required for bottom quartile performance indicators featuring in the Council's corporate priorities</p>	<p>Bottom Quartile PIs were brought to the attention of Members, but none featured significantly in the Council's corporate priorities.</p>
<p>Continue to fully embed the risk management process.</p>	<p>To fully embed risk management the Council needs to:</p> <ul style="list-style-type: none"> • Continue to provide staff training. • Carry out operational risk assessments. • Ensure that risk is considered as a part of the decision making process and that reports to support strategic policy decisions and project initiation documents include a risk assessment. 	<p>Risk refresh workshops for Senior Management Team. Operational Risk assessments undertaken. Committee reports now include risk assessment.</p> <p>Training and guidance for Members to be provided in 2007/08. Further staff training as appropriate.</p>

Issue	Proposed Action	Action Completed
	<ul style="list-style-type: none"> • Introduce Risk Based Internal Auditing. 	To be considered further in 2007/08
Business continuity plans to be subject to regular review and testing.	<p>Business/service continuity plans do exist but need to be reviewed/updated and a testing plan put in place.</p> <p>Will be dealt with by the Corporate Support Manager in conjunction with the Countywide joint emergency planning unit, which was operational from the 1st April 2006.</p>	A programme of business continuity workshops is being held through the joint emergency planning unit. This started in February 07 and is scheduled to finish in July.