

BABERGH DISTRICT COUNCIL

FROM: HEAD OF FINANCE

REPORT NUMBER **F23**

**TO: OVERVIEW AND SCRUTINY
(STEWARDSHIP) COMMITTEE**

DATE OF MEETING 23 May 2006

STATEMENT ON INTERNAL CONTROL (SIC) 2005/06

1. SUMMARY

1.1 This report explains the need for a small Member group from this Committee to review the 2005/06 Statement on Internal Control (SIC) and supporting evidence, to determine whether the proposed actions are adequate to address the identified weaknesses.

2. RECOMMENDATIONS

2.1 That a small Member group be formed to review the 2005/06 Statement on Internal Control and supporting evidence, to determine whether the proposed actions are adequate to address the identified weaknesses.

2.2 That the Committee gives its views and comments on sections 4-6 of the SIC attached in Appendix 1.

The Committee is able to resolve this matter.

3. FINANCIAL IMPLICATIONS

3.1 No financial implications.

4. KEY INFORMATION

4.1 The Accounts and Audit Regulations 2003 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. 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.

4.2 The completed statement must be signed by the Chief Executive and the Chairman of the Strategy Committee. Best practice also requires a Member group to separately review and approve the SIC.

4.3 It was proposed in Report E155, accepted by this Committee on 27 September 2005, that a Member group consisting of 2-3 Members from this Committee be formed to review the Statement and supporting evidence, ensuring that the proposed actions are adequate to address the identified weaknesses. Councillors Jennie Jenkins and Dave Busby met to discuss the 2004/05 statement.

4.4 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 1) that Members feel need 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 (section 6)

4.5 The Member Group needs to meet before 4 June to enable the SIC to be circulated with the 2005/06 accounts to Council for approval on 20 June 2006.

5. **APPENDIX**

(a) Appendix 1 – Statement on Internal Control 2005/06

6. **BACKGROUND PAPERS REFERRED TO:**

None.

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STATEMENT ON INTERNAL CONTROL 2005/2006

1. Introduction

- 1.1 The Accounts and Audit Regulations 2003 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.

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 improvements 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 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 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, comprising 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 forms part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, particularly 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 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 on-going process designed to identify and prioritise the risks to achieving the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their impact, and to manage them efficiently, effectively and economically.

3.5 This statement covers the systems of internal control that have been in place at the Council for the year ended 31st March 2006 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 covers 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, which are followed to ensure that these are efficient, transparent and accountable to local people.
- An overall policy framework and budget agreed by full Council. Within that framework decision-making is delegated to the Strategy Committee or to officers under delegated authority. There are two Overview and Scrutiny Committees, which support and scrutinise the work of the Strategy Committee and the Council as a whole.
- Reviews by external auditors and inspectors, external agencies, Internal Audit, and the Corporate Support section, to seek improvements in ensuring the economic, effective and efficient use of resources and in the way in which functions are exercised.
- Services are delivered by trained and experience 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 some are addressed through a corporate training plan.

- The Principal Solicitor is the 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 financial management of the Council is conducted in accordance with the financial regulations and procedures set out in Part 4 of the Constitution. The Council has designated The Head of Finance as Chief Finance Officer in accordance with section 151 of the Local Government Act 1972.
- The Council maintains 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 Council has a performance management framework. The system is driven by the Corporate Plan, which is approved by the Full Council. The Plan focuses attention on corporate priorities. It is cascaded through departmental service plans and individual staff targets, achievement against those targets is monitored by officers. The Overview and Scrutiny Committees monitor and scrutinise progress against indicators and targets within the corporate plan and consider and recommend corrective action where necessary on a quarterly basis.
- The Risk Management Strategy explains the Council's attitude to risk and documents the responsibilities for managing risk throughout the Council.
- Corporate and divisional business continuity plans are in place, but haven't been subjected to a testing programme.
- 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 comments made by external auditors and other review agencies and inspectorates.

- 5.2 Internal Audit is responsible for monitoring the quality and effectiveness of the systems of internal control. A report of each audit undertaken 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 2005/06, 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 inspection by the Council's external auditors who place reliance on the work carried out by the section. Internal Audit act upon any recommendations made by the external auditors for improvements to Internal Audits processes or procedures.
- 5.5 The External Auditors' Scored Judgement undertaken during 2004 rated the Council's overall performance as 'Good', with a score of 17 out of 20 in respect of the Appointed Auditor Assessment. That assessment covered the following areas of Council activity:
- Financial standing
 - System of internal financial control
 - Standards of financial conduct and the prevention and detection of fraud
 - Financial statements
 - Legality of significant financial transactions
- 5.6 The Use of resources Assessment replaced the above and was carried out during 2005. It assessed the Council's performance as 'consistently achieving above minimum requirements', which is a level 3. The assessment covered the following areas, which is a more strategic assessment than in 2004:
- Financial reporting
 - Financial management
 - Financial standing
 - Internal control
 - Value for money
- 5.7 The Benefit Fraud Inspectorate (BFI) assessment in 2004, found that the Benefits service was providing a Fair towards Good performance and that the proven capacity to improve was good.
- 5.8 The Council has two Overview and Scrutiny Committees. They monitor the decisions of the Strategy Committee and can 'call-in' a decision, which has been made but not yet implemented, to enable them to consider whether the decision is appropriate. There were no 'call-ins' during the year.

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 below along with the action plans that are in place to address them and ensure continuous improvement of the system. Details of the significant control issues identified in the 2004/05 statement and actions taken to resolve them is included at Appendix A.

Issue	Action Proposed
Continue to strengthen the Council's Corporate Governance arrangements by providing training on Corporate Governance to all key officers and Members.	<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.
Continue to improve the performance management system.	Further SMART Action plans required for bottom quartile performance indicators featuring in the Council's corporate priorities
Continue to fully embed the risk management process.	<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. • Introduce Risk Based Internal Auditing.
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>

7. Conclusion

- 7.1 A sound system of internal control has been in place at Babergh District Council throughout the year ended 31st March 2006 and work to strengthen this is ongoing.

Patricia Rockall
Chief Executive

Date: _____

Nick Ridley
Chair of Strategy Committee

Date: _____

Update on Significant Internal Control Issues 2004/05

Issue	Proposed Action	Action Completed
Strengthen the Council's Corporate Governance arrangements by providing training on Corporate Governance to all key officers and Members and making the staff, public and other stakeholders aware of Corporate Governance.	Provide training through Member and officer workshops and use existing communication channels for staff, public and others.	Code of Corporate Governance placed on the Council's Website and Intranet. Council's contractors contacted and made aware of the code and provided with a link to the relevant part of the Website.
Continue to improve the performance management system.	Implement the actions detailed in the CPA Improvement Plan. Participate in the implementation of a Performance Management process for the countywide Local Area Agreement, which will bring many funding streams together.	<p>Significant improvements to the Council's Performance Management Framework achieved. Targets, set to ensure continuous improvement have been achieved and quality has improved.</p> <p>The 2005/06 CPA Improvement Plan has been implemented.</p> <p>Good participation in the LAA Performance Management process.</p>

Issue	Proposed Action	Action Completed
Continue to fully embed the risk management process.	A more formal system of review and monitoring will be introduced, together with a mechanism for involving Members in the identification of high-level risks and the action to be taken. The need for service heads to be actively involved in the process and for risk management to be considered in the annual business planning process will be reinforced within a revised risk management strategy.	Strategic risk assessment exercise carried out involving Management Team, Heads of Service and Members. Revised Risk Management Strategy setting out roles and responsibilities has been approved. Overview & Scrutiny (Stewardship) Committee monitor strategic risks on a quarterly basis.
Business continuity plans to be subject to regular review and testing.	Set up a testing programme for the business continuity plans. Review these plans in 2006/07.	No progress made.