

STATEMENT ON INTERNAL CONTROL 2006/07

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 economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is 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.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than 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;
- evaluate the likelihood of those risks being realised and the impact should they be realised;
- manage the risks efficiently, effectively and economically.

The systems of internal control 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.

3. The Internal Control Environment

The key elements of the internal control environment are:

- Establishing and monitoring the achievement of the Council's objectives;
- A robust process of policy and decision-making, open to public scrutiny;
- A comprehensive set of policies, procedures and regulations providing a framework in which the Council operates and arrangements to ensure compliance with these and legal requirements – including how risk management is embedded in the activity of the Council, how leadership is given to the risk management process and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- Measures to ensure the economical, effective and efficient use of resources and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty;
- Established processes for the financial management of the Authority, including financial reporting, which ensure compliance with legal requirements and best professional practice; and
- The performance management framework of the Authority and the reporting of performance management.

The Council has been building on the work that was implemented last year and has been developing a comprehensive assurance framework that draws together the elements of internal control within the Authority.

Using this framework the Council has been able to better review its internal control arrangements and the results of the review of effectiveness are detailed below.

The key operational, organisational and corporate governance structure that the Council has in place is summarised below:-

Council Structure

In organisational terms, the Council has adopted an Officer and Member Structure that contributes to the internal control systems as follows:-

Officer

- The Chief Executive is head of paid service and responsible for the strategic management and direction of the authority;
- The Head of Legal Services is the Monitoring Officer who advises the Council on all legal matters;
- The Head of Finance is the Section 151 Officer who is responsible for the financial administration of the Council and advising on the financial strategy;
- There are two Corporate Directors who share Portfolio responsibilities;
- The Officers Management Team meets weekly to address Strategic and Management issues;
- An Internal Audit Section reviews systems of internal control, reporting to the Head of Finance; and
- A scheme of delegation to Officers has been adopted by the Council.

Member

- The Council has adopted a constitution with a Leader and Executive;
- There are six Portfolio Holders with specific service responsibilities; and
- The Council has in place an Overview and Scrutiny Committee (which also undertakes the functions of an audit committee) and a Standards Committee.

Corporate Governance and other Internal Control issues are also supported through the Council's procedures, policies and plans, in particular:-

- The Constitution
- Corporate Plan
- Contract Standing Orders, Financial Standing Orders and Financial Regulations
- Annual risk based Internal Audit Plan
- External Audit Plan
- Anti-fraud and corruption policy
- Financial plans such as the Medium Term Financial Strategy, annual revenue and capital budgets and capital strategy

- Budgetary control systems and reports
- Treasury Management Strategy and Practices
- Policies for the regulation of the use of Information Technology such as the Information Security Policy and Electronic Communications Policy
- Data Protection Policy
- Confidential Reporting Code for Employees
- Personnel policies and procedures, including Code of Conduct for Employees
- Code of Conduct for Council Members.

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 review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Officers Management Team within the Council who have overall 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.

Management

Service managers are responsible for the routine monitoring and review of the internal controls operating within their services. They should report any exceptions or problems in the internal control processes to their Managers and Internal Audit. Issues that could apply on an authority-wide basis are dealt with through Officers' Management Team.

During the year there were adequate arrangements for the monitoring and review of internal financial controls. Progress was made on the formal identification, monitoring and review arrangements for corporate and operational risks including the adoption of a revised Risk Management Strategy by the Council in October 2006.

Internal Audit

The responsibility for maintaining and reviewing the system of internal control rests with the Council. In practice, however, the Council is likely to take assurance from the work of Internal Audit. The Overview and Scrutiny Committee undertook the role of Audit Committee for the Authority during the year. The Committee has formed an Audit and Risk Management Panel to examine audit and risk management issues in detail and good reporting arrangements for both internal and external audit exist.

During the year, the work of Internal Audit included reviews of the system of internal financial control. The External Auditors place a great reliance on internal audit, particularly for the review of core systems, but also carry out their own checks in accordance with International Auditing Standards.

Ongoing dialogue between internal and external audit has helped to develop the relationship and ensure that the work of internal audit is still consistent with those International Auditing Standards.

External Auditors

The external auditors are required to form an opinion on the effectiveness of the Council's corporate governance and risk management procedures in their reports and management letters.

During 2006-07 a comprehensive review of the Council's "Use of Resources" was carried out by the Audit Commission. This covered the following:

Element	Assessment
Financial Reporting	3 out of 4
Financial Management	3 out of 4
Financial Standing	3 out of 4
Internal Control	3 out of 4
Value for Money	3 out of 4
Overall Score	3 out of 4

The results of this review were very favourable for the Council but there were also some areas of improvement identified.

5. Significant Internal Control Issues

During the year no serious irregularities occurred as a result of internal control weaknesses.

The Council has taken the opportunity to use its assurance framework to undertake a more detailed review of its internal control processes.

The table below highlights the most significant areas for improvement for the new financial year and they are included as priorities in Corporate and Service Plans as appropriate:

Internal Control Weakness	Improvement Action	By Whom
The Information Security Policy is not up to date in accordance with latest ISO standard and current technology.	The policy is being reviewed and updated as appropriate.	Technology Risk Officer
Financial Regulations have not been updated for several years and do not comply with the latest CIPFA model.	A review of Financial Regulations to ensure they meet best practice is being finalised.	Accountancy & Audit Manager
Contract Standing Orders are not up to date.	A review of Contract Standing Orders in accordance with latest guidance and legislation is nearing completion.	Head of Legal Services
Significant partnerships have not been formally risk assessed and governance arrangements not formally reviewed.	A review of significant partnerships, to enable risk assessments and governance reviews to be carried out, has commenced.	Head of Legal Services and Business Support Officer (Finance)
Business Continuity Plans are not fully in place and tested.	Business Continuity Plans are to be finalised and tested early in the year.	Head of Administration and Technology Risk Officer

The Council has also reviewed its corporate governance processes against the Code produced jointly by Solace and CIPFA and there are no major weaknesses within the Authority. Areas where improvements are required are already covered by the action plan detailed above.

Signed: _____ **Date:** _____

Roger Tetstall
Chief Executive

Signed: _____ **Date:** _____

Councillor Ian Carr
Leader of the Council