

STATEMENT ON INTERNAL CONTROL 2006/07

Annexe A

1. SCOPE OF RESPONSIBILITY

- 1.1 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, and used economically, efficiently and effectively.
- 1.2 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.
- 1.3 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 including arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the Council's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.
- 2.2 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, and
 - **Manage** them efficiently, effectively and economically.
- 2.3 The system of internal control detailed below has been in place at the Council for the year ended 31st March 2007. Up to the date of approval of the annual report and accounts (June 2007) and, except for the details of significant internal control issues at Section 5, accords with proper practice.

3. THE INTERNAL CONTROL ENVIRONMENT

- 3.1 The internal control environment is designed to control the overall business of the Council, including:

STATEMENT ON INTERNAL CONTROL 2006/07

Annexe A

- **How it ensures that it is doing the right thing** - for example via communication and consultation.
- **How its business is controlled** - standards, regulations, etc.
- **How it is accountable and operates with integrity** - lines of reporting and decision-making, codes of conduct, etc.
- **How public resources are safeguarded** – for example through internal audit, anti fraud and corruption policies.
- **How it delivers efficient and effective services** - for example through procurement, partnership working and how resources are utilised.
- **How it monitors progress and identifies areas for improvement** – for example through internal and external scrutiny and a performance management framework, and
- **How risk is identified and managed.**

3.2 These various facets can be identified in several forms across the Council. This document brings together the key elements of the Council's overall internal control framework. They are set out below.

Decision Making

- 3.3 The Council operates under a Constitution. This 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.
- 3.4 The Full Council makes decisions on key policies and sets the budget and levels of local taxation for the Council's services.

Policy Making

- 3.5 This is facilitated through 3 policy committees, which are responsible for the main service areas of the Council and are:
- Environmental and Development Services
 - Housing and Community Services
 - Finance and Management
- 3.6 Each Committee is governed by its Terms of Reference as laid down in the Constitution. Meetings of these committees are open to the public except where issues of an exempt nature are being disclosed.

STATEMENT ON INTERNAL CONTROL 2006/07

Annexe A

- 3.7 An Overview and 2 Scrutiny committees (Corporate Scrutiny and Community Scrutiny) shadow the policy committees. They also support policy development and review.
- 3.8 Six area meetings and a Parish Forum are well established and these meet throughout the year. They are designed to improve community involvement in decision-making and provide a continuous link with local residents, parish councils, the voluntary sector and other public bodies.

Governance and Accountability

- 3.9 The Council has designated the Head of Legal and Democratic Services as its Monitoring Officer. It is the function of this officer to ensure compliance with established policies, procedures, laws and regulations.
- 3.10 After consulting with the Head of the Council's paid service (the Chief Executive) and Chief Finance Officer, the Monitoring Officer will report to Full Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration.
- 3.11 Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.
- 3.12 In addition, the Council operates 2 regulatory committees focusing on Development Control (planning applications and enforcement) and a Licensing and Appeals Committee. Furthermore, a Standards Committee that includes independent members oversees the conduct of elected councillors.
- 3.13 Accountability for the use of public funds and service provision, etc. is largely undertaken through the annual publication of a Statement of Accounts and Best Value Performance Plan.

Standards of Financial Conduct

- 3.14 Financial management is conducted in accordance with financial management and procedural rules as set out in Part 4 of the Constitution. The Council has designated the Director of Corporate Services in accordance with Section 151 of the Local Government Act 1972.
- 3.15 This officer is responsible for making arrangements for the proper administration of financial affairs in accordance with best professional practice.
- 3.16 In addition, under the Code of Audit Practice, the Council has a responsibility to ensure that its affairs are managed in accordance with

proper standards and to prevent and detect fraud and corruption. The Council has adopted a Fraud and Corruption Strategy.

Standards of Overall Conduct

- 3.17 Elected councillors and employees of the Council operate under codes of conduct. These codes provide a set of standards of conduct expected of employees at work and for councillors in performing their public duties.
- 3.18 The codes take into account the requirements of the law and the provisions of official conduct in the appropriate national conditions of service (for employees).

Establishing Corporate Objectives

- 3.19 These are set out in a Corporate Plan. This is effectively the Council's business/forward plan, set for 3 years and updated annually. This plan sets out the vision for South Derbyshire along with its priorities for delivering local services.
- 3.20 The District's Community Strategy also influences this plan. This aims to improve the overall economic, social and environmental wellbeing of South Derbyshire by tackling those issues that are important to the local community and service providers.
- 3.21 It involves working through a local strategic partnership, with other agencies and service providers within the District.

Consultation

- 3.22 The Corporate Plan is informed by consultation and is based on the views of all stakeholders including local people, voluntary and community groups and local businesses. A quarterly newspaper is also published to enable the communication of information between the Council and its residents.

Service Delivery

- 3.23 The Council has an established service-planning framework, which sets out the key tasks and targets for all of the Council's services. The Council was assessed in 2004 under the national Comprehensive Performance framework as a "fair" authority (on a scale ranging from poor, weak, fair and good to excellent).
- 3.24 Following on from this as part of testing service delivery, the Audit Commission on an annual basis, assesses how the Council "uses its resources" and by issuing a "direction of travel statement." In addition, the

Commission also undertake detailed inspections of specific areas from time to time.

- 3.25 Areas for improvement are identified and action plans stemming from these assessments and reviews, help to ensure that the Council is constantly seeking ways of ensuring economical, effective and efficient use of its resources and for securing continuous improvements in service delivery.

Procurement

- 3.26 To support service delivery, the Council has a dedicated procurement unit. This is intended to co-ordinate greater efficiency and effectiveness in the use of Council resources.

Managing Performance

- 3.27 The Council's performance management framework is called "Achieving More" and our Corporate Plan sets out the strategic priorities for providing and improving local services. Targets and milestones are cascaded down into departmental service plans and then into personal development plans for individual employees.
- 3.28 The Council's policy committees monitor progress against targets and performance as part of the performance management framework. In addition, an Improvement Panel scrutinises key performance targets and considers corrective action where necessary.
- 3.29 Suitably trained and experienced staff delivers all services. Within individual service plans, managers identify actions to address any risks or changes to the service that have an impact on employees (where appropriate).
- 3.30 This is used to develop a corporate approach to learning and development alongside events undertaken within each service area.

Partnership Working

- 3.31 The Council works in partnership with many other public agencies and private organisations to deliver its services. The extent of these partnerships varies across the Authority.
- 3.32 The Council's most significant partnerships are the Local Strategic Partnership and the Safer South Derbyshire Partnership that operates under the Local Area Agreement for the County of Derbyshire.

- 3.33 These partnerships are properly constituted and Committees are established (comprising representatives of this Council) who monitor and review progress.

Risk Management

- 3.34 The Council operates under a Risk Management Policy Statement, which sets out the principles, responsibilities and commitment to dealing with risk. It is effectively the framework for the management of risk throughout the Council.
- 3.35 The Council, through its service planning process, has a system for identifying and evaluating significant risks. Each divisional service plan contains a risk register and this is developed and maintained by officers involved in planning and delivering services.
- 3.36 In addition, the Council's corporate plan and financial strategy identify and evaluate risk at a more strategic level. Furthermore, evaluation of proposals for new spending and capital investment includes a risk assessment score.
- 3.37 A cross-departmental Risk Management Group has defined terms of reference to review and develop principles, challenge service risks, oversee significant business risks and to help embed risk management in the Council.
- 3.38 Quarterly monitoring reports are provided to the Finance and Management Committee.

Internal Audit

- 3.39 Under the Account and Audit Regulations 2003, the Council maintains an Internal Audit function, which operates to the standards set out in the Code of Practice for Internal Audit in Local Government in the UK.
- 3.40 This function provides an independent evaluation on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 3.41 Internal audit is the main means by which the Council obtains assurances that systems are operating effectively. They are required to issue an Assurance Statement (annual report) each year that provides an assessment of the Council's internal control system.

The Council's Audit Sub Committee

- 3.42 The purpose of the Sub Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment.
- 3.43 It also provides independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment.
- 3.44 The Sub Committee also oversee the Authority's corporate governance arrangements in relation to financial matters in conjunction with the Standards Committee.

External Scrutiny

- 3.45 The Audit Commission has been appointed as the Council's external auditor. Besides auditing the accounts and financial statements of the Council, they also focus on more strategic performance and financial management arrangements.
- 3.46 This includes reviewing arrangements in place for securing economy, efficiency and effectiveness in the use of resources.
- 3.47 The Commission undertake regular reviews each year and issue reports with action plans to aid improvement in specific areas. The annual Audit and Inspection Letter that is reported to Council, summarises the conclusions and significant issues arising out of audit and other inspections undertaken.

4. REVIEW OF EFFECTIVENESS

- 4.1 The Council has responsibility for conducting, at least annually, a review of the system of internal control. Many aspects of the current framework are indeed subject to on-going review.
- 4.2 Its effectiveness is informed from work undertaken by Internal Audit and from senior managers, who have responsibility for the development and maintenance of the framework. In addition, recommendations from the Council's external auditors and other review agencies also inform this framework.
- 4.3 The processes and indicators that have been applied in maintaining and reviewing the effectiveness of internal control during the year 2006/07 are set out below.

Overall Corporate Governance

- 4.4 The Council has adopted a local code of corporate governance based on recommended best practice (the CIPFA/SOLACE framework). This sets out the systems by which the Council directs and controls its functions. This code was reviewed and updated twice (on a ½ yearly basis) during the year.

The System of Internal Audit

- 4.5 Internal Audit is responsible for monitoring the quality and effectiveness of internal control. They review all fundamental financial and other management systems each year and all other activities over a 4-yearly cyclical period. This is based on a risk assessment of each area.
- 4.6 Internal Audit reports to the Council's Audit Committee on a quarterly basis. The reporting process requires a report of each audit to be submitted to the relevant service manager.
- 4.7 The report includes recommendations for improvements that are included within an action plan and require agreement or rejection by managers. The process includes reviews of recommendations to ensure that they are acted upon.
- 4.8 Under its terms of reference, the Audit Committee considers in detail any recommendations that are found to have a potentially "high-risk" impact on the Council's control environment. These are subject to on going monitoring until all recommended actions have been implemented.
- 4.9 Internal Audit is subject to an annual assessment by the Council's external auditors. A more detailed review is undertaken once every 3-years and this was completed during 2006/07.
- 4.10 This review concluded that overall they were satisfied (apart from some points addressed in an action plan) that the Council has appropriate constitutional and managements arrangements in place for its internal audit service.
- 4.11 As part of the annual assessment, internal audit's operational plan is reviewed including their coverage of controls in important financial systems. External audit express an opinion on the adequacy of internal audit work and where appropriate, rely on their work for assurance. This was satisfactory for 2006.
- 4.12 Furthermore, the Council is required to conduct an annual review of the effectiveness of its system of internal audit. The review is required to

STATEMENT ON INTERNAL CONTROL 2006/07

Annexe A

ensure that the opinion in the annual report of the Audit Manager may be relied upon as a key source of evidence for this Statement.

- 4.13 The Audit Sub Committee, who concluded that during 2006/07, the system of internal audit was effective, considered this. Internal Audit's annual Assurance Statement that sets out an assessment of the internal control system is attached at **Appendix 1**.

Communication and Consultation

- 4.14 During 2006/07, the Council undertook a comprehensive consultation exercise on its new corporate plan through an "ideas into action" campaign. This involved extensive consultation with local residents and other stakeholders to determine actions required to help deliver the Council's main priorities.
- 4.15 The Council's budgetary plans for the next 3-years were based on this consultation.
- 4.16 During 2006/07, the Council also identified resources for a dedicated corporate consultation officer. Consequently, a new communication and consultation strategy, which will be approved shortly, will improve our engagement with all residents and stakeholders across the Council's area.

The Constitution

- 4.17 The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. Changes to the Constitution have to be approved by Full Council and reflect any changes to the Council's structure and responsibilities.
- 4.18 In addition, the Overview Committee has the power to "call in" a decision, which has been made by a policy committee but not yet implemented, to enable them to consider whether the decision is appropriate. No decisions were called in during 2006/07.
- 4.19 The Overview and Scrutiny Committees scrutinise key policy issues, recommending and reporting back actions to the main policy committees. Their annual reports set out details of their work and outcomes during the year.

Propriety in the Conduct of Business

- 4.20 During 2006/07, the Council reviewed and updated its whistle blowing policy and publicised this across the organisation.

Monitoring Performance

- 4.21 The “Achieving More” framework specifies the performance-monitoring regime. The Council’s Improvement Panel met on a regular basis to scrutinise progress against key performance targets and improvement milestones.
- 4.22 A “traffic light” monitoring system is used to highlight areas at risk of being achieved/not achieved. The Panel make recommendations to all policy committees where performance is not on track and minutes of meetings are referred to the Finance and Management Committee.
- 4.23 During the year, Policy Committees also received quarterly performance monitoring reports and agreed remedial measures where these were necessary. In addition, the Finance and Management Committee received quarterly financial and risk monitoring reports.
- 4.24 During 2006/07, the Audit Commission undertook a review of performance management arrangements and concluded that we are “making good progress in implementing a strong, corporate approach to performance management.”
- 4.25 They also looked at the Council’s arrangements for data quality and made recommendations for further improvements in this area.

Partnerships

- 4.26 In accordance with the Local Area Agreement, internal audit carried out a review of the governance arrangements for the Safer South Derbyshire Partnership. The report found no major or high-risk internal control issues, but did make some recommendations to improve operations which have/are being actioned.

Use of Council Resources

- 4.27 The Audit Commission also judged the Council’s performance in how it uses its resources and manages its finances, including how well it achieves value for money. The Council improved in 3 of the 5 categories assessed compared to the previous year and scored an overall 3 (out of 4). This shows that the Council is now performing consistently well in this area.

Other Indicators

- 4.28 Generally, liaison takes place on an on going basis with Heads of Service who help assess the adequacy of internal control and to help identify areas for improvement.

- 4.29 Finally, the Council's Annual Audit and Inspection Letter reports any significant weaknesses in the overall control framework, in arrangements to prevent and detect fraud and corruption, and in its framework for ensuring the legality of financial transactions.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

- 5.1 The Council operates within a fast changing environment. Consequently, the system needs to be subject to constant review and there will always be room to strengthen and increase the effectiveness of internal control.
- 5.2 Indeed, issues identified in the corresponding statement for 2005/06, identified several areas to be developed. Many of these were acted upon during 2006/07 such as:
- Developing a new communication and consultation strategy
 - Establishing an Audit Committee
 - Producing an summary statement of accounts
 - Reviewing performance management
 - Regular reporting on risk management
 - Reviewing and updating the whistle blowing policy
- 5.3 Whilst these will continue to be embedded in the day-to-day business of the Council, there are other areas that have been identified that are considered key in further strengthening the internal control environment.
- 5.4 Primarily these have been highlighted from a review of the Local Code of Corporate Governance and through work undertaken by the Audit Commission during the last year, including its Use of Resources Judgement.
- 5.5 In addition, some actions may relate to areas where an initial strategy, policy or plan is required to strengthen the control environment. Any specific or detailed actions emanating from these are monitored and reviewed as part of the Council's performance management framework.
- 5.6 The Local Code of Corporate Governance is held as an action area due to outstanding actions required from its ½ yearly review. This code is a key part of the Council's overall system of internal control.
- 5.7 These areas are summarised in the table on **Page 12** (below). These actions will be monitored and reviewed mainly through the Council's Improvement Plan (as contained in its yearly Best Value Performance Plan for 2007/08).

STATEMENT ON INTERNAL CONTROL 2006/07

Annexe A

INTERNAL CONTROL – ACTIONS 2007/08

	Issue and Actions	Timescale	Responsible Officer
1	Continue to review the Local Code of Corporate Governance – in accordance with updated guidance (which is imminent) and to undertake any outstanding work during the year.	½ yearly reviews	Head of Legal and Democratic Services
2	Maintain and strengthen current partnership arrangements - develop a good practice protocol for internal use to support effective partnership working.	By September 2007	Deputy Chief Executive
3	Maintain and improve performance further in the Use of Resources Assessment – in particular on production of annual financial statements, financial monitoring and training.	By September 2007	Director of Corporate Services
4	Implement a Data Quality Strategy – need to adopt the Strategy and deliver the associated action plan.	By June 2007	Deputy Chief Executive
5	Communication and Consultation Strategy – need to adopt the strategy and roll out the toolkit to meet the Government's expectation for greater community engagement.	By June 2007	Deputy Chief Executive
6	Further embed the Council's performance management framework throughout the Council – deliver the action plan agreed with the Audit Commission, in particular to focus on the achievement of outcomes.	By March 2008	Deputy Chief Executive
7	Implement actions from the Audit Commission's review of the Local Area Agreement (as they affect the Council) – in particular on risk and financial management arrangements.	By March 2008	Director Of Corporate Services

.....Leader of the Council

.....Dated

.....Chief Executive

.....Dated