AUDIT COMMITTEE
28TH JUNE, 2007

ITEM NO.

STATEMENT ON INTERNAL CONTROL

Purpose of Report

1. To seek approval of the Council's Statement on Internal Control.

Background

2. Regulation 4 of the Accounts and Audit Regulations requires local authorities to publish, each year, a Statement on Internal Control (SIC). The SIC forms part of the overall Statement of Accounts and must be signed by the Leader of the Council and Chief Executive.

Information

3. The SIC to be published with the Statement of Accounts for 2006/07 is attached at **Appendix 1.** It follows the Chartered Institute of Public Finance and Accountancy (CIPFA) recommended format.

4. The SIC outlines the Council's responsibilities, explains the purpose of the system of internal control, sets out the key elements of the internal control environment, details the review of its effectiveness, highlights significant internal control issues and summarises future improvements.

Legal Implications

5. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers need to be brought to the specific attention of Members, other than those highlighted in the report.

Section 17 of the Crime and Disorder Act 1998

6. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

Recommendation

7. It is recommended that the draft SIC at Appendix 1 be approved.

Paul Wildsmith
Director of Corporate Services

Background Papers

  (i) CIPFA Publication – The Statement on Internal Control in Local Government, meeting the Requirements of the Accounts and Audit Regulations 2003.

 (ii) Audit Services' Annual Report 2006/07 reported to Audit Committee 28th June 2007

 (iii) Annual Audit and Inspection Letter reported to Audit Committee 28th June 2007

 (iv) Report on Review of Internal Audit Effectiveness reported to Audit Committee 28th June 2007.

  (v) Overview Report on Managers Assurance Statements reported to Audit Committee 28th June 2007.

 (vi) Risk Management Reports to Audit Committee 11th October 2006 and 28th June 2007.

(vii) Corporate Governance Update Reports to Audit Committee 11th October 2006 and 28th March 2007.

(viii) Anti-Fraud and Corruption Arrangements Reports to Audit Committee 20th December 2006 and 28th June 2007.

 (ix) Use of Resources Auditor Scored Judgements reported to Audit Committee 20th December 2006.

  (x) External Audit Report on Data Quality Reviews – Management Arrangements and Spot Checks reported to Audit Committee 28th December 2006.

 (xi) External Audit report on High Level Review of the Local Area Agreement reported to Audit Committee 28th March 2007.

(xii) Reports on Pedestrian Heart to Resources Scrutiny in June and December 2006, to Council in September 2007 and to Cabinet in July 2006 and January 2007.

Brian James : Extension 2140
TAB

STATEMENT ON INTERNAL CONTROL (SIC)

Scope of Responsibility

1. Darlington Borough 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.

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.

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 and which includes arrangements for the management of risk.

The Purpose of the System of Internal Control

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 ongoing process designed to identify and prioritise the risks to the achievement of the 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.

5. The system of internal control has been in place in the Council for the year ended 31st March 2007 and up to the date of approval of the annual report and accounts and accords with proper practice.

The Internal Control Environment

6. The key elements of the Council's internal control environment are tabulated in Appendix A to this statement which also indicates their relevance to the following areas :-

    (a) Establishing and monitoring the achievement of the Council's objectives.
    (b) Facilitation of policy and decision-making.
    (c) Compliance with established policies, procedures, laws and regulations.
    (d) Economical, effective and efficient use of resources and continuous improvement.
    (e) Financial Management.
    (f) Performance Management.

Review of Effectiveness

Background

7. The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the work of the

internal auditors and the executive managers within the Council who have 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 in their Annual Audit Letter and other reports.

8. The Statement has been drafted by a management group which has responsibility for evaluating assurances and the supporting evidence. The group comprises :-

    (a) Director of Corporate Services (S151 Officer)
    (b) Borough Solicitor (Monitoring Officer)
    (c) Assistant Chief Executive
    (d) Assistant Director –Accounting Services and Local Taxation
    (e) Assistant Director – Financial Services
    (f) Chief Internal Auditor

Risk Management

9. Risk is one of the pieces of information incorporated into the development of departmental service plans and Corporate and Best Value Performance Plan. Risk management is, therefore, an essential element in establishing policy, developing plans and enhancing operational management.

10. The risk management process involves identifying, analysing, managing and monitoring risks. The identification of risks is derived from a 'top down' (corporate) and a 'bottom up' (departmental) process of risk assessment and analysis resulting in coverage of the whole Council. The process prioritises the risks resulting in a focus upon the key risks and priorities. The risks are managed through the development of appropriate action plans, allocated to responsible officers.

11. The approach to and outcomes from the Council's risk management processes for 2006/07 was reported to the Audit Committee in June 2007. The report detailed positive progress upon delivery of action plans to mitigate key risks and outlined advances in the management of operational risks through the Council's Corporate Risk Management Group. Indeed, proactive risk management work within the Council was recognised on a national level on two occasions this year.

Performance Management

12. The Council's performance management framework (PMF) is a formal process that monitors outturn against the underpinning performance indicators and involves regular reports to Departmental Management Teams, Corporate Management Team, Cabinet and Scrutiny Committees.

13. The Performance Management Framework is reviewed on a regular basis and improvements are made as necessary.

14. That outcomes from this process were positive in 2006/07 is evidenced by the fact that all corporate objectives were on target or better, apart from ensuring access for all that has been adversely affected by performance in one BVPI, as published in the 2007-10 Corporate

Plan.

15. The Council was assessed by external audit on its corporate arrangements to secure data quality for the first time during 2006. The assessment covered the five themes of governance and leadership, policies and procedures, systems and processes, people and skills and data use. Overall the Council was considered to be operating 'consistently above minimum requirements-performing well'.

Internal Audit

16. The Council's Internal Audit Division operates to the standard defined in the CIPFA Code of Practice for Internal Audit in Local Government. The Annual Internal Audit Plan is risk-based and sets the foundation for an objective review of key controls and procedures operating within the Council.

17. The Audit Committee approves the Internal Audit Annual Audit Plan and receives progress reports against the Plan during the year including any significant matters arising or other issues of concern and Internal Audit's Annual Report.

18. Internal Audit concluded in their Annual Report for 2006/07 that, overall, the Council continues to operate within a control environment that is generally sound.

Review of Internal Audit Effectiveness

19. A review of the effectiveness of the Council's system of internal audit was carried out by a team of senior officers that comprised the Policy Manager, the Assistant Director - Housing and the Assistant Director-Public Protection based upon guidance issued by the Finance Advisory Network (FAN) of CIPFA. The findings of the review were considered by the Audit Committee in June 2007.

20. The review team concluded that the Council has an effective system of internal audit.

Managers Assurance Statements

21. Annual Managers Assurance Statements are an integral part of the framework that supports production of the SIC.

22. The Statements cover key aspects of the internal control environment on which assurance is required and were completed formally for the first time in 2007 by representatives on Departmental Senior Management Teams. The output from the exercise was reported to the Audit Committee in June 2007.

23. The overall position was positive. Required improvements identified through the Assurance Statements largely focus upon the implementation of learning management software that is referred to later in paragraph 36.

Local Code of Corporate Governance

24. In 2002 the Council adopted a Local Code of Corporate Governance in accordance with the CIPFA/SOLACE framework document and supplementary guidance note entitled Corporate

Governance in Local Government – a keystone for Community Governance.

25. The Audit Committee received six-monthly monitoring reports in October 2006 and March 2007 to ensure that Members are satisfied that the management processes defined in the Local Code are actually being adhered to throughout the organisation.

Annual Audit and Inspection Letter

26. The Annual Audit and Inspection Letter, produced jointly by the Council's external auditors PricewaterhouseCoopers LLP (PwC) and the Audit Commission, was presented to the Audit Committee in June 2007. The Letter highlighted that the Council retained the highest Comprehensive Performance Assessment (CPA) rating of 'four-star' and under 'direction of travel', to describe improvement progress, was 'improving well'. In terms of Use of Resources, comprising financial reporting, management and standing as well as internal control and value for money, the Council was considered to be delivering 'consistently above minimum requirements – performing well'.

27. The Letter commented specifically that 'strong corporate governance arrangements provide a sound basis for continued improvement', 'effective performance and financial management systems are well established and are continually being honed to improve their effectiveness' and 'risk management is well embedded'. In addition the annual performance assessment for adult social care conducted by the Commission for Social Care Improvement (CSCI) stated that 'budgetary and performance management systems are good'.

Improvements Implemented to the Control Environment

28. The previous SIC referred to specific future improvements to the internal control environment and these have been introduced. The Audit Committee was established to help raise the profile of internal control, risk management and financial reporting issues and provide a forum for discussion of issues raised by internal and external auditors; senior managers have completed assurance statements to support the SIC; and the Council has adopted a partnership toolkit to address the issue of partnership governance arrangements that is currently being rolled out across departments.

Significant Internal Control Issues

29. The previous SIC referred to a major capital scheme, the Pedestrian Heart, and the fact that a Review Group of members from Resources and Environment Scrutiny Committees was to scrutinise the circumstances of an element of the scheme whereby an unexpectedly shallow gas main was required to be diverted which significantly increased costs as a result of both the gas main diversion itself and consequential scheme reprogramming.

30. The Review group reported to Resources Scrutiny Committee in June 2006 and recommended that the Council explore the possible legal implications arising from the gas main incident, discuss with the Utility Company a greater contribution towards the costs and a strategy be produced for strengthening project management arrangements with external agencies. These recommendations were accepted by Cabinet in July 2006.

31. Subsequently, following a report to Council in September 2006 seeking additional funding approval for the scheme, Resources Scrutiny Committee were asked to review the project to date and give an oversight to a review of future capital project management.

32. Resources Scrutiny Committee established a Review Group for this purpose that met during November 2006. The Group examined relevant documentation and received presentations from Clarus Consulting appointed by the Director of Development and Environment to review management arrangements on the contract, the Borough Solicitor and Chief Internal Auditor on the award of the contract and the Programme Manager on the review being undertaken within the Council of capital processes.

33. The Review Group reported to Resources Scrutiny Committee in December 2006 where recommendations were agreed that were later approved by Cabinet in January 2007. The recommendations related to the implementation of the Clarus recommendations to improve management on the scheme, a robust review of the Council's tendering process including member involvement, each contract award over the Contracts Procedure Rules threshold to be based upon a clear and robust procurement/contract strategy, the requirement that all contracts be in place and approved by Legal Services before payments are made and that Resources Scrutiny Committee endorse the establishment of a project to review the capital project management role and that it be involved in developing the system and overseeing implementation. The Review Group also recommended a general review of all payments to ensure they were appropriate.

34. Implementation of recommendations is progressing. Legal Services are exploring the gas main incident and other payments made under the contract; the Utility Company has refused to contribute more towards the costs; the recommendations of Clarus have been implemented; the review of the tendering process aligned to a review of Contract Procedure Rules is underway and will result in recommended changes to the Council's Constitution in 2007; within limits of practicality to meet deadlines, contracts are in place and approved by Legal Services before payments are made; and the project team to review the capital project management role has been established and the review is to be concluded by the end of August 2007.

Future Improvements

35. The Leader of the Council and Chief Executive are aware of the result of the review of the effectiveness of the system of internal control by the Audit Committee and are committed to ensure continuous improvement of the system in place.

36. Specific future improvements include the expansion of managers' assurance statements to cover individual schools and the implementation of learning management software to better record acceptance and understanding by employees and members of a range of corporate policies/processes.

Signed …………………………………………..   Date ……………………………….
                 Leader of the Council

Signed …………………………………………..   Date ……………………………….
                 Chief Executive

THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

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APPENDIX A

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Key Elements of Internal Control Environment	Establishing and Monitoring Achievement of the Council's Objectives	Facilitation of Policy and Decision-Making	Compliance with established policies, procedures, laws and regulations	Economical, effective and efficient use of resources and continuous improvement	Financial Management	Performance Management
Community Strategy	✓					
Corporate and Best Value Performance Plans	✓	✓		✓		✓
Service Planning Framework	✓	✓		✓		
Code of Conduct for Members			✓			
Code of Conduct for Employees			✓			
Financial Procedure Rules	✓		✓		✓	
Performance Management Framework	✓			✓		✓
Consultation Framework	✓	✓				
Partnership Framework	✓	✓		✓		
Constitution		✓				
Council Procedure Rules		✓				
Scheme of Delegation to Officers		✓				
Risk Management Strategy	✓	✓	✓	✓	✓	✓
Local Code of Corporate Governance Reporting Framework	✓	✓	✓	✓	✓	✓
Internal Audit	✓	✓	✓	✓	✓	✓
Confidential Reporting Policy			✓			
Communications Framework	✓	✓	✓	✓	✓	✓
Complaints Procedure			✓			
Standards Committee			✓			
Audit Committee		✓	✓	✓	✓	✓
Managers Assurance Statements			✓			
Protocol for Councillors and Officers dealing with planning matters			✓			
Standard Committee Report format		✓	✓			
Fundamental Service Reviews				✓		
Financial Management and Reporting Framework			✓	✓	✓	✓
Procurement Framework			✓	✓		
Contract Procedure Rules			✓	✓	✓	✓
Medium Term Financial Plan/Budgets		✓		✓	✓	
Annual Statement of Accounts	✓		✓		✓	
Treasury Management Framework			✓		✓	
People Management Framework	✓	✓	✓	✓	✓	✓
Scrutiny/Review Groups	✓	✓	✓	✓	✓	✓