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**STATEMENT ON INTERNAL CONTROL**

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**Responsible Cabinet Member(s) - Councillor Don Bristow,  
Resource Management Portfolio**

**Responsible Director(s) - Paul Wildsmith, Director of Corporate Services**

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**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 2005/06 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.

**Outcome of Consultation**

5. No formal consultation has been undertaken on the subject of this report.

**Legal Implications**

6. This report has been considered by the Legal Services Manager for legal implications in accordance with the Council's approved procedures. There are no issues which the Legal Services Manager 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**

7. 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.

### **Council Policy Framework**

8. The issues contained within this report do not represent change to Council policy or the Council's policy framework.

### **Recommendation**

9. Council are requested to approve the draft SIC at Appendix 1.

### **Reasons**

10. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

**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 2005/06.
- (iii) Annual Audit and Inspection Letter.
- (iv) Risk Management Report to Cabinet 7th March, 2006.
- (v) Corporate Governance Update Reports to Resources Scrutiny Committee 16th February, 2006 and 18th August, 2005.

Brian James : Extension 2140  
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## STATEMENT ON INTERNAL CONTROL

### 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 2006 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 who have responsibility for evaluating assurances and the supporting evidence. The group comprises :-
  - (a) Director of Corporate Services (S151 Officer)
  - (b) Legal Services Manager (Acting 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 was reported to Cabinet in March 2006. 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.

### ***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 2005/06 is evidenced by the fact that all corporate objectives were on target or better as published in the 2006/07 Corporate and Best Value Performance Plan.
15. In the external audit of the 2004/05 BVPIs none were qualified and only a handful were amended.
16. After each external audit a ‘lessons learnt’ report is produced and agreed with both external and internal audit. This report is circulated to departments and the contents discussed at a

meeting of the PMF Coordination Group.

### ***Internal Audit***

17. The Council's Internal Audit Division operates to the standard defined in the CIPFA Code of Practice for Internal Audit in Local Government issued in 2003. 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.
18. Internal Audit report to Cabinet to approve its Annual Audit Plan, to report progress against the Plan during the year including any significant matters arising or other issues of concern and to receive Internal Audit's Annual Report.
19. Internal Audit concluded in their Annual Report for 2005/06 that, overall, the Council continues to operate within a control environment that is generally sound.

### ***Local Code of Corporate Governance***

20. 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.
21. Resources Scrutiny receive six-monthly monitoring reports to ensure that Members are satisfied that the management processes defined in the Local Code are actually being adhered to throughout the organisation. The monitoring reports of August 2005 and February 2006 concluded that, generally, the position was positive in this regard.

### ***Annual Audit and Inspection Letter***

22. The Annual Audit and Inspection Letter, produced jointly by the Council's external auditors PricewaterhouseCoopers LLP (PwC) and the Audit Commission, was presented to Cabinet in February 2006. The Letter highlighted that the Council retained the highest Comprehensive Performance Assessment (CPA) rating, was now classed a 'four-star' council 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'.
23. The Letter commented specifically that 'corporate governance arrangements are strong, systems of risk management are well embedded and internal controls operate effectively'. In addition, the conclusions of an Audit Commission inspection of Supporting People in the spring of 2005 included as a strength 'good governance and budget monitoring mechanisms'.

### ***Significant Internal Control Issues***

24. An issue occurred late in the financial year concerning a major capital scheme, the Pedestrian Heart.
25. A Review Group of Members from Resources and Environment Scrutiny Committees were asked 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. The Chief Executive, Director of Development and Environment and Director of Corporate Services are committed to taking forward any issues arising from this review to improve the Council's arrangements.

### **Future Improvements**

26. 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 Council and are committed to ensure continuous improvement of the system in place.
27. Specific future improvements include the establishment of an Audit Committee from the start of the 2006/07 Municipal Year 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; the formal completion by senior managers of assurance statements to support the SIC; and formal adoption and implementation of a Council partnership toolkit to address the issue of partnership governance arrangements.

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

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

## THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

## APPENDIX A

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			✓			
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	✓	✓	✓	✓	✓	✓