
STATEMENT ON INTERNAL CONTROL

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

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

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 2003 requires local authorities to publish, each year, a Statement on Internal Control (SIC). The SIC forms part of the overall Statement of Accounts but 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 2004/05 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 and details the review of its effectiveness from which no significant internal control issues were highlighted.

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 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

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 2004/05.
- (iii) Annual Audit and Inspection Letter.
- (iv) Corporate Assessment of the Council.

Brian James : Extension 2140
TAB

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 2005 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

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. Risk is one of the pieces of information incorporated into the development of departmental service plans and Best Value Performance Plan. Risk management is, therefore, an essential element in establishing policy, developing plans and enhancing operational management. Risk management is also integrated into the Council's Best Value guidance where it can help narrow down the options

for future service delivery.

9. 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. Key elements of the action plans are formulated as relevant performance indicators which are incorporated into the Council's departmental service plans and Best Value Performance Plan. The relevant performance indicators identified are monitored through the performance management framework which involves regular reports to Corporate Management Team, Cabinet and Scrutiny Committees.
10. Our review of effectiveness of the action plans put in place to mitigate key risks is achieved, in part, through the performance management framework which is a formal process that monitors outturn against the underpinning performance indicators. That outcomes from this process were positive in 2004/05 is evidenced by the fact that all corporate objectives were on target or better as published in the 2005/06 Best Value Performance Plan.
11. 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.
12. 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.
13. Internal Audit concluded in their Annual Report for 2004/05 that, overall, the Council continues to operate within a control environment that is generally sound and that the environment had been enhanced as risk management was now embedded into the Council's planning process.
14. 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 January 2005. The Letter presented a positive view of the Council's performance and governance arrangements.
15. The Annual Audit and Inspection Letter was produced prior to publication of the outcome from the corporate assessment of the Council conducted by the Audit Commission. This assessment categorised Darlington as an EXCELLENT Council.
16. 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.

Significant Internal Control Issues

17. No significant internal control issues have been highlighted by the annual review of the system.

Signed Date
Leader of the Council

Signed Date
Acting 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	4					
Corporate and Best Value Performance Plans	4	4		4		4
Service Planning Framework	4	4		4		
Code of Conduct for Members			4			
Code of Conduct for Employees			4			
Financial Procedure Rules	4				4	
Performance Management Framework	4			4		4
Consultation Framework	4	4				
Partnership Framework	4	4		4		
Constitution		4				
Council Procedure Rules		4				
Scheme of Delegation to Officers		4				
Risk Management Strategy	4	4	4	4	4	4
Local Code of Corporate Governance Reporting Framework	4	4	4	4	4	4
Internal Audit	4	4	4	4	4	4
Confidential Reporting Policy			4			
Communications Framework	4	4	4	4	4	4
Complaints Procedure			4			
Standards Committee			4			
Protocol for Councillors and Officers dealing with planning matters			4			
Standard Committee Report format		4	4			
Fundamental Service Reviews				4		
Financial Management and Reporting Framework				4	4	
Procurement Framework			4	4		
Contract Procedure Rules				4		
Medium Term Financial Plan/Budgets		4			4	
Annual Statement of Accounts					4	
Treasury Management Framework			4		4	
People Management Framework	4	4	4	4	4	4

