

STATEMENT ON INTERNAL CONTROL

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 2006. Up to the date of approval of the annual report and accounts (June 2006) 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:
 - **How it ensures that it is doing the right thing** - for example via 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.

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- **How public resources are safeguarded** – for example through internal audit, anti fraud and corruption initiatives.
- **How it delivers efficiency** - for example through procurement 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 District'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.
- 3.7 An Overview and 2 scrutiny committees shadow the policy committees.
- 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.

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- 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 (local planning) and a Licensing and Appeals Committee. Furthermore, a Standards Committee that includes independent members oversees the conduct of elected councillors.

Standards of Financial Conduct

- 3.13 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.
- 3.14 This officer is responsible for making arrangements for the proper administration of financial affairs in accordance with best professional practice.
- 3.15 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

- 3.16 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. 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

- 3.17 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.
- 3.18 The District's Community Strategy also influences this plan. This aims to improve the economic, social and environmental wellbeing of South Derbyshire by tackling those issues that are important to the local community and service providers.
- 3.19 Therefore, the Corporate Plan is informed by consultation and is based on the views of local people, voluntary and community groups, businesses and other interested organisations.

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Service Delivery

- 3.20 The Council has an established service-planning framework, which sets out the key tasks and targets for all of the Council's services.
- 3.21 As part of testing service delivery against best value principles, the Audit Commission regularly reviews individual services, crosscutting activities and the overall performance of the Council via a national Comprehensive Performance Assessment.
- 3.22 Action plans stemming from these 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.

Managing Performance

- 3.23 The Corporate Plan drives the system. This sets out the plans and 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.
- 3.24 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.
- 3.25 All services are delivered by suitably trained and experienced staff. Within individual service plans, managers identify actions to address any risks or changes to the service that have an impact on employees.
- 3.26 This is used to develop a corporate approach to learning and development alongside events undertaken within each service area.

Risk Management

- 3.27 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.
- 3.28 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.
- 3.29 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.
- 3.30 A cross-departmental Risk Management Group has defined terms of reference to review and develop principles, challenge service risks, oversee significant

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business risks and to help embed risk management in the Council. Quarterly monitoring reports are provided to the Finance and Management Committee.

Internal Audit

- 3.31 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 (CIPFA).
- 3.32 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.
- 3.33 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 each year that provides an assessment of the Council's internal control system.

External Scrutiny

- 3.34 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. This includes reviewing arrangements in place for securing economy, efficiency and effectiveness in the use of resources.
- 3.35 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 2005/06 are set out below.
- The Council has adopted a local code of corporate governance based on the recommended CIPFA/SOLACE framework. This sets out the systems by

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which the Council directs and controls its functions. This code effectively underpins internal control and is reviewed and updated on a ½ yearly basis.

- 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.
- Internal Audit reports to the Council's Finance and Management Committee. The reporting process requires a report of each audit to be submitted to the relevant service manager. 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.
- Internal Audit is subject to regular inspection by the Council's external auditors. As part of this process, 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.
- During 2005/06, Internal Audit was subject to an external review, and recommendations made and agreed concerning how resources should be employed in the future to meet a changing agenda.
- The external auditors also conducted a 3-yearly review, which concluded that the Council has appropriate constitutional and management arrangements in place for its Internal Audit service. They recommended some points for improvement but were also able to place reliance on Internal Audit's fundamental systems work to discharge elements of their statutory duties.
- Internal Audit's annual Assurance Statement that sets out an assessment of the internal control system is attached at **Appendix 1**.
- During 2005/06, the Council undertook a comprehensive consultation exercise on a new corporate plan for 2006 to 2009. This plan sets out the vision for South Derbyshire along with its priorities for delivering local services. It contains a new vision for South Derbyshire, a more concise statement of the values that will guide the Council's actions and 6 "cross cutting" themes, each of which contains its own clearly defined priorities.
- 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.
- Following a review of each Policy Committee's terms of reference in 2004/05, a formal work programme was drawn up in 2005/06 to help direct the role of policy committees in the future.

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- The Overview and 2 Scrutiny Committees have 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. In addition, these committees scrutinise key policy issues, recommending and reporting back actions to the main policy committees.
- The Council’s Improvement Panel meets on a regular basis to scrutinise progress against key performance targets and improvement milestones. A “traffic light” monitoring system is used to highlight areas at risk of being achieved/not achieved. Minutes of meetings are referred to the Finance and Management Committee.
- During the year, the Council adopted a new performance management framework – “achieving more.” Policy Committees also received quarterly performance monitoring reports during 2005/06.
- During 2005/06, the Audit Commission undertook a review of performance and risk management in the Council and made recommendations for developing these areas further.
- In addition, they also inspected the Housing repairs and maintenance Service during the year. This was assessed as a fair service that had promising prospects for improvement.
- Furthermore, the Audit Commission also judged the Council’s performance in how it uses its resources, including how well it achieves value for money. The Council scored an overall 2 (out of 4), which shows that adequate performance, and minimum requirements are being met.
- During 2005/06, the Council’s insurers independently reviewed the council’s arrangements for risk management. This informed the work of the Risk Management Group and helped identify the Council’s significant business risks.
- The Council updated its Procurement strategy during the year and centralised its procurement function by shifting resources into this area. This is intended to co-ordinate and streamline the function and to deliver greater efficiency and effectiveness in the use of Council resources.
- During 2005/06, the Council increased its general communication and consultation with local residents by introducing a council newspaper, published on a quarterly basis. During the last budget round (January 2006) the Council also approved additional resources designed to consult “hard to reach” groups across the District.
- 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.
- The Council’s Annual Audit and Inspection Letter reports any significant weaknesses in the overall control framework, in arrangements to prevent

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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 2004/05, identified several areas to be developed. Many of these were acted upon during 2005/06 such as:

- Adopting a local code of corporate governance
- Embedding risk management
- Adopting a new performance management framework
- Greater focus being placed upon procurement
- Extensive consultation undertaken on a new corporate plan
- Adopting a People Strategy to build capacity and skills of employees

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 in March 2006.

5.5 These areas and how they will be actioned are summarised in the table on Page 9 (following).

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	Issue	Timescale	Responsible Officer
1	Maintain and strengthen current partnership arrangements - develop a good practice protocol to support effective partnership working.	By March 2007	Deputy Chief Executive
2	Develop a new communication and consultation strategy – to involve local residents and other stakeholders more in decision-making.	By March 2007	Deputy Chief Executive
3	Establish an Audit Sub-Committee – which has audit and governance issues as the principal responsibility in its terms of reference and which provides effective leadership on audit and governance issues.	By July 2006	Head of Finance and Property Services
4	Review the terms of reference and format/timing of internal audit reporting – to ensure the independence of the function, together with standardised reporting.	By December 06	Head of Finance and Property Services
5	Improve financial reporting – by publishing a summary Statement of Accounts which is less technical in nature but more meaningful to members of the public.	By June 2006	Head of Finance and Property Services
6	Review the effectiveness of the new performance management framework – to see after the first year whether this has worked and how it can be improved.	By October 2006	Deputy Chief Executive
7	To report to Council at more regular intervals on risk management – at least quarterly to ensure that corporate business risks are being actively managed.	From May 2006	Head of Finance and Property Services
8	To promote and ensure propriety in the conduct of business – to be more proactive in counter fraud and corruption work and to better publicise the Council's "whistle blowing policy."	By September 2006	Head of Finance and Property Services, Revenues and Legal Services

.....Leader of the Council

.....Chief Executive

INTERNAL AUDIT ASSURANCE STATEMENT – 2005/2006

Statutory Requirement

The requirement for an Internal Audit function of local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities make arrangements for the proper administration of their financial affairs and ensure that one of their officers has responsibility for that role. The appointed officer, for South Derbyshire District Council, is the Director of Corporate Services. The Accounts and Audit Regulations 2003 more specifically require that 'a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices'.

System of Internal Control

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. The control environment comprises a number of elements within its framework; a key element is the use of internal controls.

Internal controls are processes designed and implemented by management to ensure statutory requirements, policies and procedures are complied with, assets are safeguarded and records are complete and accurate.

The role of Internal Audit

This function provides an independent evaluation on the adequacy of the internal control system as a contribution to the proper, economic, efficient and effective use of resources.

Internal audit is the main means by which the Council obtains assurances that systems are operating effectively. This is achieved by reviewing systems over a period of time thereby assessing the effectiveness of the overall internal control system. A long-term strategic plan is formulated using a risk assessment methodology within the audit planning process and annual work plans are undertaken. Internal Audit operates to the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the UK.

Internal Audit and external audit operate a joint working arrangement, known as the Managed Audit, to maximise the effectiveness of the audit process within the Council. The external auditor considers Internal Audit as a core component of the Council's internal control framework.

The Internal Audit Service is subject to regular inspection by the Council's external auditors who, in accordance with the Audit Commission's Code of Practice, place reliance on the work carried out. Internal Audit is responsible to the Head of Finance and Property Services.

Internal Audit's Assessment of the Internal Control System

The review of the effectiveness of internal control is informed by the work of Internal Audit and the senior managers within the Council who have responsibility for the development and maintenance of the internal control environment. In addition the comments made by our external auditors, inspectorates and other review agencies are also part of the overall assessment.

Internal Audit examined systems operating in a range of Council functions and Services in 2005/2006 in accordance with the annual plan. Internal Audit's observations and recommendations were discussed with relevant managers as part of the operation of the internal audit service.

In relation to work carried out by Internal Audit for the 2005/2006 financial year, I consider that based on this work reliance can be placed upon the Council's internal control system. The Council has implemented a number of new computer systems and these are subject to ongoing review to ensure the level of internal control is maintained.

A.J.Stamper

Audit Manager

