

STATEMENT ON INTERNAL CONTROL

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Summary: The Accounts and Audit Regulations require a statement on Internal Control to be published with the financial statements.

Recommendation: That the Statement on Internal Control is approved.
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1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2003 came into force on 1st April 2003. They established requirements related to systems of internal control, and the review and reporting of those systems. This requirement is still included in The Accounts and Audit (Amendment) (England) Regulations 2006, effective from 1st April 2006. The Council is responsible for ensuring that its financial management is adequate and effective. The system of internal control should enable the effective exercise of the Council's functions and that includes arrangements for the management of risk.
- 1.2 The Statement on Internal Control needs to be approved by Council, or a Committee with delegated authority, and published with the financial statements. Council needs to satisfy itself that it has obtained relevant and reliable evidence to support the disclosures made in the statement and should, in particular, consider the reviews of the S.151 Officer and the Monitoring Officer on issues covered by the statutory responsibilities. Following approval by Council, the statement should be signed by the Chief Executive and the Leader of the Council.

2. STATEMENT ON INTERNAL CONTROL

- 2.1 The Regulations require a review to be conducted at least once a year of the effectiveness of the Council's system of internal control. This review has been undertaken by Corporate Team, in conjunction with Internal Audit, following the guidance on the process published by CIPFA. Action plans have been developed in response to the internal audit report on Corporate Governance, the external audit Annual Audit and Inspection Letter and to various external inspection reports.
- 2.2 Other issues arising from compilation of the Statement on Internal Control are included in a separate action plan. It should be noted that recent advice is that only those issues which are material should be disclosed as items in the action plan arising from this exercise. In practice everything that could have been disclosed as an area for improvement for the Statement of Internal Control is covered within the action plans developed for the Annual Audit Letter and Corporate Governance internal audit report.
- 2.3 The Statement is attached as Appendix A.

3. RECOMMENDATION

3.1 It is recommended that the Statement on Internal Control is approved.

List of Appendices

Appendix A - Statement on Internal Control 2006/07

List of Background Documents:

CIPFA Publication "The Statement on Internal Control in Local Government – Meeting the requirements of the Accounts and Audit Regulations 2003"
Internal audit report "Corporate Governance 2006/07"
External audit report "Annual Audit and Inspection Letter 2005/06" and action plan.

List of Consultees:

Corporate Team
Audit and Fraud Prevention Manager

**COPELAND BOROUGH COUNCIL
STATEMENT OF INTERNAL CONTROL 2006/7**

1. SCOPE OF RESPONSIBILITY

Copeland 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. Copeland Borough 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. In discharging this overall responsibility, Copeland Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of Copeland Borough Council's functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

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 Copeland Borough 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.

Internal controls have continued to be developed through the year and up to the date of approval of the annual report and accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

The key elements of the internal control environment are described below:

3.1 Establishing and monitoring the achievement of the Council's objectives

- A revised Corporate Plan 2005/07 submitted to the Executive 21/2/06, prior to full Council approval. This was succeeded by a 5 year Council Plan, adopted on 17 April 2007.
- Key objectives published in the annual Best Value Performance Plan (BVPP) and in the Corporate Plan.
- Individual Service Plans, linked to the Corporate Plan, set out key objectives. Service Plans for 2006/07 were in place by April 2006, and the majority of Service Plans for 2007/8 have been developed in parallel with the 5 year Council Plan to reinforce deliverability.
- Targets and objectives reviewed quarterly. Performance against Corporate Plan objectives reported to the Executive quarterly. Service key objectives monitored by the Chief Executive /relevant Director.
- Achievement of the main objectives also reported annually in the BVPP.

3.2 The facilitation of policy and decision-making

- Council's Constitution provides a general framework for governance. Reviewed annually.
- The Executive meet at least monthly to facilitate prompt decision-making, with a "call in arrangement", preventing decisions being implemented for 5 working days, to allow for effective scrutiny.
- Individual Portfolio Holders have delegated powers.
- Four Overview and Scrutiny Committees, based on cross-cutting themes, have work plans which provide a mechanism for feeding into policy making.
- Forward Plan details key decisions to be made by the Executive.

3.3 Ensuring compliance with established policies, procedures, laws and regulations and the role of risk management

- The Head of Legal and Democratic Services is the Monitoring Officer
- Audit Committee was established in May 2006 as a dedicated resource to support compliance with established policies, procedures, laws and regulations and the role of risk management
- General Standing Orders, Scheme of Delegation and Contract Standing Orders are regularly reviewed. Contract Standing Orders were revised in February 2005. Financial Regulations were revised in June 2006.
- The Council adopted the Good Governance Standard for Public Services in July 2005, drawing up an action plan for improvement.
- Full Council 28/2/06 approved the Comprehensive Equality Policy, a Disability Equality Scheme on 12 December 2006 and a Gender Equality Policy on 17 April 2007.
- Level 1 of the Equality Standard for Local Government achieved by April 2006. Plan to achieve Level 2 was agreed by Improvement Board, with requirement for Equality Impact Assessments of services and policies.
- Approved Anti-Fraud and Corruption Strategy. Training on Public Interest Disclosure Act was carried out during summer 2006, and the whistle-blowing policy reissued to employees and contractors during 2006/7.
- Internal audit carries out annual audits of the main financial systems and cyclical audits of minor financial and operational systems, based on an annual risk analysis.
- Reports on audit activity were made to the Audit Committee.
- A revised Risk Management Strategy and Framework approved by the Executive on 25/4/06. This includes monitoring of the Corporate Risk Register and Service Operational Risk Registers. Reports on progress with implementation were made to OSCs and Executive.
- The Project Manager for any major project has to submit a Project Initiation Document (PID) to the Improvement Board for approval. The PID includes an evaluation of the risks and documents how they will be managed.
- Members completed personal development assessments in 2005/06. This resulted in a programme of training for 2006/07.
- The Council's managers undertook a corporate management training programme during 2006/7.
- A dedicated post of Health and Safety Officer was appointed as part of the restructure in 2005/06. The Council's managers undertook Managing Safely IOSH accredited courses. A comprehensive programme of health and safety training was delivered for employees in all services and new guidance issued to managers. The 2004/05 Health & Safety Policy was revised and agreed by Executive in September 2006.
- An IT Security Policy was issued in December 2005 and all existing and new Members and employees are required to sign up to the Policy.
- A revised Code of Conduct was issued to employees in January 2006 and all employees were required to sign up to this new Code.

3.4 Ensuring the economical, effective and efficient use of resources and the drive for continuous improvement

- Some standards and targets established for many years but there is a recognised need to extend these and to use them to improve performance.
- Standards for customer service were adopted by Management Group in September 2005 and were formally approved by the Executive 21/2/06. Work continued in 2006/7 to refine and embed these.
- Performance against national Best Value Performance Indicators (BVPI's) and implementation plans for all Best Value Reviews are monitored through individual service performance reports and, corporately, by Performance Improvement. Quarterly reports are made to Executive on progress against the BVPIs. Where performance is falling short of the target, corrective action has to be approved, including specific targets included in Service Plans.
- Improvement plan drawn up following the 2003/04 Corporate Performance Assessment (CPA). Progress continued to be monitored in 2006/07 by the Improvement Board.
- Developments in the CPA process have been consulted upon and responded to by the Council. Progress in meeting the new requirements has been reported Improvement Board and OSC P & R.
- Resources Steering Group ensures that resources are allocated to Council priorities.
- Procurement Strategy prepared and adopted, with improvement action plan. Procurement Officer started work in October 2006.
- A Communications Manager was appointed following the restructure in 2005 and a Communications Strategy was approved in May 2006 by Executive. The Communications Strategy includes reviewing existing methods of consultation and feedback on performance, and an initial evaluation of progress was made in January 2007.

3.5 Financial management of the Council and the reporting of financial management

- The S.151 Officer (the Head of Finance & Business Development) is responsible for ensuring that appropriate officer advice is given, throughout the Council, on all financial records and accounts and for ensuring an effective system of internal financial control.
- Monthly budget monitoring reports are issued to budget holders and variances are reported to the Executive on a quarterly basis.
- Quarterly reports to the Executive on Treasury Management and on financial progress of the Capital Programme.
- Financial Regulations are regularly reviewed. Last review April 2006 – approved by the Executive and Full Council in June 2006.

3.6 Performance management of the Council and the reporting of performance management

- Quarterly performance monitoring reports for the Corporate Plan and PI's are considered by the Executive. These report against key objectives and against the national BVPI's.
- Quarterly monitoring of performance against Service Plan objectives is carried out by Heads of Services and reported to the Chief Executive / relevant Director. This includes a review of operational risk registers. From April 2006, this also included the monitoring of outstanding audit recommendations.
- Annual Employee Development Interviews link individual performance to the service objectives.
- The CoValent Performance Management system was procured and introduced in 2006/7, with the first quarterly report produced on it going to Executive in February 2007. This has increased the efficiency and effectiveness on performance reporting.

4. REVIEW OF EFFECTIVENESS

Copeland Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority 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.

- The governing body (Full Council) - reviewed the Constitution in April 2006, and full Council approved in June 2006. The Council approved further changes in April 2007 to take account of the Local Government White Paper “Strong and Prosperous Communities”.
- The Audit Committee considered the annual Audit & Inspection Letter (Audit Commission) in March 2007 and an annual report on compliance with the Good Governance Standard for Public Services (internal audit) on 31 May 2007.
- The Executive received regular reports on corporate performance throughout 2006/07 and approved the Best Value Performance Plan.
- The Audit Committee monitored internal and external audit work, including reviewing the adequacy of internal controls.
- Risk management and progress on developing a business continuity plan, was monitored regularly by Corporate Team. Completing a full and tested Business Continuity Plan is regarded as a priority for 2007/8.
- Overview & Scrutiny Committees - there was one significant control issues arising from the “call in” of decisions. The Enforcement Service’s budgetary imbalance was subject of call-in, review and developing options for future delivery of the service.
- The Improvement Board continued to monitor progress with the Improvement Plan drawn up following the CPA inspection in 2003/04.
- Individual Heads of Service provided an annual assurance statement on the operation of controls in their service area.
- There were no S.151 reports issued in 2006/07.
- No Monitoring Officer reports were produced in 2006/07, other than periodic reports to Corporate Team on review of risks.
- Internal Audit updated a review of the arrangements for Corporate Governance in 2006/07, reported to the Audit Committee on 31 May 2007. Internal Audit also submitted an Annual Report on Internal Control to the Audit Committee on 31 May 2007
- External Audit – published the Annual Audit and Inspection Letter, presented to Members 23 March 2007. Other Audit Commission reports included the Auditor’s report on the Best Value Performance Plan, the Direction of Travel Report and the Use of Resources Judgement.
- The Benefits Fraud Inspectorate inspected the Housing and Council Tax Benefits Services. An action plan previously agreed with the Benefits Fraud Inspectorate in 2005/6 was delivered In 2006/7.
- There were no adverse Ombudsman reports in 2006/07.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by all of those mentioned above. Plans to address weaknesses and ensure continuous improvement of the system are in place.

5 SIGNIFICANT INTERNAL CONTROL ISSUES

5.1 Outstanding Items

There are two issues which may seriously prejudice or prevent achievement of principal objectives:

- The draft Business Continuity Plan should be approved, tested and include all services
- A corporate resource plan should co-ordinate the resources needed to ensure there is the capacity to deliver the Council’s objectives to timescale.

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Signature of the Leader of Copeland Borough Council

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Date

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Signature of the Mayor, Chair of the Council

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Date

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Signature of the Chief Executive

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Date

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Signature of the Head of Finance and Business Development

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Date