

Statement on Internal Control 2006-07

1. Scope of Responsibility

North Wiltshire District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is required to ensure that there is a sound system of internal control that facilitates the effective exercise of the Council's functions and includes arrangements for the management of risk.

The Council should conduct a review of the effectiveness of the system of internal control at least annually. It should include a statement on internal control within its statement of accounts. This statement on internal control represents the end result of the review of internal control, including the process of risk management that should be embedded throughout the activities of the Authority.

2. Purpose of System on Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve the policies, aims and objectives of North Wiltshire District Council. It can provide only reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority'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.

The system of internal control described in this statement has been in place at North Wiltshire District Council for the year ended 31 March 2007 and up to the date of the approval of the annual accounts.

3. Key Elements of North Wiltshire Internal Control Environment

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

- Aims and key priorities are set out in rolling three year Corporate Plan, the budget and the three year Medium Term Finance Plan. The Corporate Plan was completely reviewed in 2006/07 so that a new three year plan, with clearer priorities and a simpler vision was produced to commence from April 2007. The new Corporate Plan guided decisions made in setting the budget for 2007/08 and the following two years.
- Service Plans feed from and to Corporate Plan.
- Progress against the Corporate Plan is reported back to members on a quarterly basis at Overview and Scrutiny Committee and the Executive.

- Individual employee workplans and appraisals ensure that the objectives are cascaded down the organisation and progress can be monitored at an individual level.
- Monitoring of strategic and operational risks takes place through monthly performance monitoring, reviewed by the Corporate Management Board. The Executive receives budget monitor reports on a monthly basis from July to March each year.
- The Council (on 22 February 2007) also agreed policies on Spend to Save – for capital and revenue schemes – and the level of Reserves, on a risk basis. In addition, there was formal agreement on the level of revenue ‘carry-forwards’ from 2006/07 to 2007/08, to ensure the policy objectives were achieved.

3.2 The facilitation of policy and decision making

- The Council’s Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. A revised version was approved by Council on 25 October 2005. Minor updates were made during 2006/07 and a wider review is planned in 2007/08.
- The Local Code of Corporate Governance, in accordance with the CIPFA/SOLACE framework, was adopted in January 2005. The position of the Council in relation to the Code is reviewed annually in conjunction with preparing this Statement. The Code will be revised in 2007/08 in line with renewed guidance from CIPFA.
- Council sets the overall budget and policy framework, within which the Council operates. Within this framework, policy and decision-making takes place through the Executive.
- Meetings are open to the public except where personal and confidential matters are being disclosed.
- The Council publishes a Forward Plan which contains details of key decisions to be made by the Executive under its delegated powers. Overview and Scrutiny Committee also publish a workplan.

3.3 Ensuring compliance with established policies, procedures, laws and regulations

- The statutory officers, the Head of Paid Service (Chief Executive), the Monitoring Officer (Legal Team Leader), Chief Finance Officer (Section 151 Officer) have key roles in monitoring and ensuring compliance with the Council’s regulatory framework and law. For example, the Monitoring Officer has a duty to report on any actual or likely decision that would result in an unlawful act or maladministration; the Section 151 Officer is responsible for the proper administration of the authority’s financial affairs and internal audit function.
- Whistle Blowing and Anti-Fraud and Corruption policies provide additional safeguards. These were updated by the authority’s Audit Manager and were approved by members in 2006/07.
- Compliance is monitored through staff supervision, the work of Internal Audit, Overview and Scrutiny Committee, external audit and inspection agencies.
- All posts have detailed job descriptions and person specifications that include competencies. Training needs are identified through the appraisal process.
- Monthly performance monitoring is reviewed by Corporate Management Board.
- The Internal Audit service received a favourable review by the external auditors as part of the Annual Governance Report for 2006/07.
- External audit – through the Audit Commission - provides an independent appraisal function.

3.4 Identifying, assessing and managing risk

- A Risk Management Strategy was in place throughout 2006/07. The Risk Management Strategy was reviewed, updated and approved by members in 2006/07.
- A risk management officers' group was set up in 2006/07, following on from the Business Continuity and Disaster Recovery working group. This group oversaw the production of the new Risk Management Strategy.
- A corporate risk register is in place and updated on a monthly basis by Corporate Management Board – based on information in the monthly performance reports from each Business Area.
- High risks are reported through to the full management team on a monthly basis and this information is cascaded to all staff.
- Final Accounts and Audit Committee now has the overall responsibility for risk management (prior to this, it was the Executive).
- Training on risk management was undertaken for elected members and managers in early 2006. Awareness raising on risk management for new members will be addressed as part of the development programme for the Final Accounts and Audit Committee members during 2007/08, with any sessions also being promoted to all members.

3.5 Economical, effective & efficient use of resources

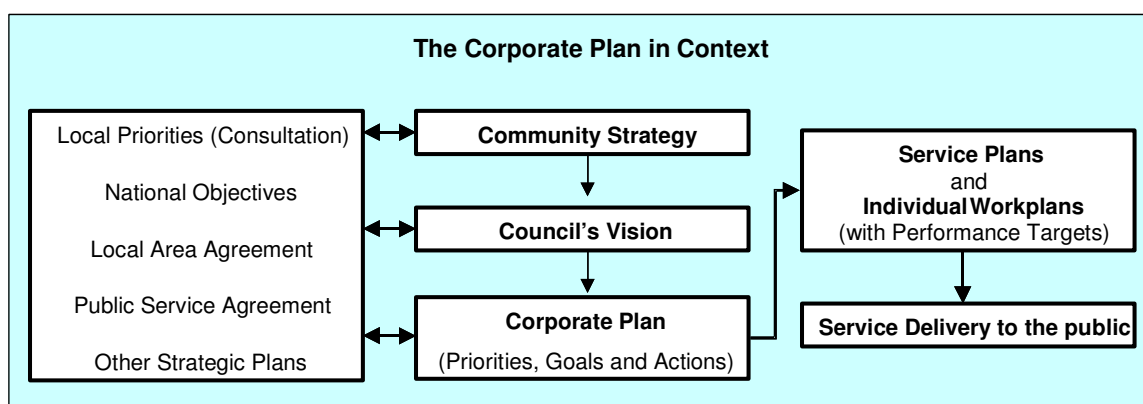
- The Capital Strategy was reviewed and approved alongside the budget for 2007/08.
- A comprehensive Asset Management Plan was approved in March 2006. This will be reviewed in July 2007. The corporate property group meets regularly and produces updates on the status of projects and other asset management issues.
- Monthly revenue and capital budget monitoring reports are produced and reviewed by Corporate Management Board and reported to the Executive. During 2006/07, budget monitoring reports were also reported to the Overview and Scrutiny Committee to engage more members in understanding the financial management of the Council. Work to improve the clarity and effectiveness of the budget monitor reports (for members and budget holders) commenced in 2006/07 and will continue throughout 2007/08.
- Monthly performance monitoring is reviewed by Corporate Management Board.
- Task groups are formed – by Overview and Scrutiny Committee, or by the Executive - where members identify issues of concern e.g. public conveniences, leisure provision.
- Performance against key performance indicators is monitored and reported regularly to CMB, Executive and Overview and Scrutiny Committee.
- The Procurement Strategy was last approved in November 2005. Corporate Procurement Group meets regularly and monitors an action plan linked to the Strategy. The Procurement Strategy will be reviewed in 2007/08.
- Overview and Scrutiny Committee provides a challenge mechanism.
- Clear processes for performance monitoring of staff and clear appraisal policies are in place. The appraisal process will be refined during 2007/08 to provide a clearer link with new Corporate Plan and training requirements.
- The first Audit Commission judgement on value for money in 2006 concluded that the Council's performance was adequate.
- The Disaster Recovery Plan was completed and fully tested during 2006/07, backing up the Council's Business Continuity Plan which was approved in March 2006.

3.6 Financial management

- The Annual Treasury Management and Investment Strategy for 2006/07 was approved by Council on 25 April 2006 and was updated on 19 April 2007.
- Monthly budget monitoring and reporting has been strengthened to include clearer commentary on variances and to improve clarity and effectiveness for budget holders and elected members. Improvement work will continue throughout 2007/08, in line with an agreed improvement plan.
- The Council has established a formal process of financial management that is supported by financial regulations, contract standing orders and a scheme of delegation that includes key accountabilities. There are also numerous monthly financial routines that include formal processes for control of income, paying bills and reconciling bank and other accounts (although reconciliations were not carried out regularly throughout 2006/07). These routines are now integral to the monthly budget progress and monitoring processes.
- Medium Term Planning is being taken forward in 2007/08, in line with a process agreed by Overview and Scrutiny Committee in February 2007. This will improve the links between budget and strategic planning and strengthen the Council's approach to achieving value for money.
- Financial regulations are available on the internal bulletin board in an easily accessible summary for members and officers.
- All Use of Resources scores and sub-scores reached a minimum of 2 (acceptable) in 2006/07. Action plans are in place to aim for overall score of 3 in future.

3.7 Performance Management

- The Council's policy and budget framework was reviewed and approved by Council in April 2006. The policy and budget framework ensures that the Community Strategy, community and customer views influence the Council's vision and corporate priorities, set out within the Corporate Plan. The Corporate Plan then drives the service planning process.
- This diagram illustrates how the Corporate Plan links to the Service Plans throughout the organisation and helps to ensure that all staff understand how their individual workplan fits into the Corporate Plan.



4. Review of effectiveness of the system of internal control

The Council has a responsibility for conducting at least annually a review of the effectiveness of the system of internal control.

The 2006/07 review has been informed by:

- Internal audit work and recommendations. Against the agreed audit plan, 82% of audits were completed during the financial year.
- External audit and inspection work.
- Ombudsman complaints. A quarterly report on complaints is considered by CMB.
- Overview and Scrutiny Committee's workplan.
- Final Accounts and Audit Committee's recommendations.

5. Approval Process for the SIC

- Corporate Management Board review: 7 June 2007
- Final Accounts and Audit Committee: 28 June 2007
- Sign off by Leader of the Council and Chief Executive by 28 June 2007.

6. Significant Internal Control Issues

The following significant internal control issues have been identified:

i. Issue – Housing Benefits Performance ⁽¹⁾

Performance on housing benefits improved through 2006/07 – with the speed of processing new claims (over the year) improving by 20 days. However, the speed of processing performance indicators are still bottom quartile and improvements need to be consolidated if the service is to achieve its targets for 2007/08.

Action

The 2006/07 budget approved growth to increase staffing in order to both improve the management structure and processing speeds. A Benefits Fraud Inspectorate improvement plan is in place and a fundamental review of structure and processes will take place over the summer of 2007, by external specialists. Benefits policy and scrutiny will be led by the new Head of Finance and Resources, once appointed.

ii. Issue – Council Tax and NNDR Collection Rates ⁽¹⁾

Annual Audit & Inspection Letter raised concerns about collection rates for Council Tax and NNDR in 2005/06. Early improvements in 2006/07 were not sustained and the 2006/07 annual collection figures place the Council in the third quartile for performance. In part this was due to lack of staffing resource.

Action

A Recovery Action Plan has been implemented. Performance indicators are being reported and monitored on a monthly basis. Recovery policy and scrutiny will be led by the new Head of Finance and Resources, once appointed and a fundamental review of structure and processes will take place over the summer of 2007, by external specialists.

iii. Issue – Change Control in ICT ⁽¹⁾

A recognised system of change control was introduced during the year, but was not fully embedded for the entire period and has not yet been subject to review.

Action

Continue to embed the ITIL (Information Technology Infrastructure Library) protocols, which will be subject to review by IT Auditors during 2007/08.

iv. Issue – Purchase/Order/Processing System ⁽¹⁾

Limited evidence that orders placed are recorded as committed expenditure on the Main Accounting System or alternative local monitoring system. The business case for obtaining a purchase ordering system was to have been reviewed in 2006/2007. This review has been delayed pending decision on unitary status for Wiltshire.

Action

Business case to be prepared by March 2008. Thorough implementation of existing ordering and commitments process to be carried out by September 2007.

v. Issue – Main Accounting System User Review ⁽¹⁾

A review of Main Accounting System user access rights identified a significant number of users who had either multiple access rights, inappropriate super-user access or they belonged to staff no longer employed by the Council. An action to review access rights has been built into the workplan of the Systems Administrator (new post as part of Finance team restructure). There is still outstanding work to complete on reviewing user access rights.

Action

All system user access rights are to be reviewed by Systems Administrator to ensure they are adequate and appropriate. A review of the Debtors' system access rights will also be undertaken.

vi. Issue – Documented procedures on VAT ⁽¹⁾

When the new creditors system was implemented, VAT documentation was created; this is on the Bulletin Board and available to staff. The re-organisation of the Finance section strengthens the structural control of VAT. The Documentation of the whole of the VAT process is in the 2007-08 workplan.

Action

The Finance Team will produce clear and comprehensive guidance notes, to be circulated to all appropriate officers of the Council by September 2007.

vii. Issue - Reconciliation of Main Accounting System, Bank and key systems ⁽¹⁾

A schedule of recommendations has now been produced, and all key systems were reconciled as part of the year-end process. However, regular reconciliations were not performed throughout the year.

Action

The schedule of reconciliations needs to be firmly embedded into the working practices of the Finance Team, which should be facilitated by the proposed new structure.

viii. Issue – Inadequate control over virements

Audit testing identified that virements were processed during the year, without following the authorisation procedures set out in the Council's Financial Regulations. In addition, the Council's ledger system processed these virements as changes to underlying budgets rather than recording a clear management trail of the alterations made.

Action

All staff to be reminded of the need to adhere to Financial Regulations when processing virements. System functionality to be explored to ensure all virements can clearly be identified on the ledger.

ix. Issue – Main Accounting System

The main accounting system has not been adequately developed to provide support to financial management. Accounting and budgeting and reporting arrangements do not meet the requirements of the Section 151 Officer in order to fulfil his/her role within the law – the latter being catered for by use of PC software and manual records. There is also a lack of expertise within the Council and externally to get the best from what is now a somewhat old fashioned electronic tool.

Action

All these matters need to be reviewed urgently to remove inefficiencies. The Section 151 Officer will produce a programme with key dates for changes. Ideally, a new more up-to-date system is required but initially the existing system will be developed to deal with the most pressing budget, control and reporting matters. The deadline for this initial work is September 2007. The timescale for replacement will depend upon a comprehensive review and the decision on the unitary proposal.

x. Issue – Senior Management Restructure/Fit for Purpose Organisation ^{(2) (3)}

A review of senior management is underway to drive improvements in customer focus across the Council and deliver more effective and efficient, quality-driven services. This risk to the internal control system concerns both the non-achievement of planned savings and any delay in appointing new Heads of Service for Finance and Resources, and Governance.

Action

Interviews for the new Head of Finance and Resources (s.151 Officer) will take place in late June and a restructure of the Finance service is already underway. Internal Audit will move into the Governance service area in the new structure.

xi. Issue – Achievement of Budgeted Efficiency Gains and Savings ⁽³⁾

Efficiency gains and savings of more than £2million have been included in the 2007/08 budget. Realising these efficiency gains and savings will be critical in ensuring the Council's financial standing is improved.

Action

Improvements to the monthly budget monitoring process and reports have been agreed. Combined with more focused financial support for budget holders, these improvements should enable and problem areas to be swiftly identified so that corrective action can be taken.

xii. Issue – Future of Leisure ^{(2) (3)}

The new provider of services at Leisure Centres (under the terms of an interim contract) needs to rebuild the business in order to minimise the financial risk to the Council.

Action

Detailed contract and financial monitoring will be carried out throughout 2007/08. Monthly profit and loss meetings are held with the contractor, to enable any issues to be highlighted promptly and remedial actions to be agreed.

xiii. Issue – Local Government Reorganisation ⁽³⁾

Uncertainty over the future of the Council, pending decision on the Wiltshire bid for unitary council status could delay decision on system improvements (e.g. Main accounting system) and may affect staff recruitment and retention, which will have an impact on improving the control environment and possible costs.

Action

Recruitment and retention planning will need to consider strategy for both the interim position (before a decision is known) and for the transition process, if the Wiltshire bid succeeds. Systems improvement projects will need to be reviewed according to the decision.

Notes:

- ⁽¹⁾ These issues were also highlighted in the 2005/06 SIC
- ⁽²⁾ These issues are covered in the Corporate Risk Register
- ⁽³⁾ These issues were included in the risk-based assessment determining the Council's minimum level of reserves.

I/we have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority and the Final Accounts and Audit Committee and plan to address weaknesses and ensure that continuous improvement is in place.

Signed by:

Leader of the CouncilDate:.....
Councillor Richard Tonge

Chief ExecutiveDate:.....
Delwyn Burbidge