

Report

Report subject: Update on Statement on Internal Control and review of Annual Audit and Inspection Letter

Report to: Audit Committee

Date: 26th July 2005

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1 Statement on Internal Control

- 1.1 The Audit Committee recommended amendments to the Statement on Internal Control, which were agreed by Council on 27th June. The updated version of the SIC is attached for information.

2 Review of Annual Audit & Inspection Letter

- 2.1 The last meeting of the Audit Committee requested a review of the Audit Commission Annual Audit and Inspection Letter and a summary prepared of weaknesses highlighted in the report. This summary covers those matters related to internal control and corporate governance that are within the remit of this committee.

Recommendations	Comment
Implement the local code of corporate governance and monitor compliance with it.	Local code adopted by Council on 21 st February 2005.
Implement the governance action plan to embed good governance arrangements throughout the council	Council approved the action plan along with the local code. Report on the progress made is due to come to this Committee in January 2006.
Strengthen the coordination arrangements for best value performance indicators.	Responsibility for this now lies with the Performance Improvement Manager in Democratic Services.
Continue action to improve compliance with ordering and payments regulations.	Further audit work by Internal Audit in June / July 2005 shows an improved performance. New arrangements in place to support procurement with the appointment of the Procurement Manager. Later in 2005/06 phase 2 of the Agresso financial management system will be implemented to provide electronic purchasing arrangements. This will facilitate enhanced controls.

<p>The need for a policy setting out when expenditure should be capitalised to ensure consistent and appropriate treatment of expenditure in relation to accounting standards.</p>	<p>This is due to be included in the treasury management report to Cabinet in September.</p>
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3 Conclusion

- 3.1 The matters raised in the Annual Audit and Inspection Letter have been actioned or are in progress. It is not felt that there are any significant issues for inclusion in the Statement on Internal Control.

4 Recommendation

- 4.1 The Audit Committee should note the changes made to the Statement.

5 Implications

- Financial – none at this stage
- Legal – none at this stage
- Personnel – none at this stage
- Community safety – none
- Council's core values – excellent service
- Wards affected – district wide

SCOPE OF RESPONSIBILITY

Salisbury 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 and properly accounted for, and used economically, efficiently and effectively. Salisbury District 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, Salisbury District 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

The system of internal control is designed to manage risk to a reasonable level rather than 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.

The system of internal control has been in place at Salisbury District Council for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

THE INTERNAL CONTROL ENVIRONMENT

Organisational

The Council has adopted a Constitution with Cabinet and Leader.

The Cabinet has organised itself into four Portfolios:

- Resources
- Environment and Transport
- Planning Economic Development and Tourism
- Community and Housing

The Cabinet carries out all of the local authority's functions which are not the responsibility of any other part of the local authority, whether by law or under this Constitution.

An Audit Committee has been established with responsibility for overseeing corporate governance, internal control, risk management, external audit and internal audit.

The Council has conducted a review of its corporate governance arrangements and has published a local code of corporate governance. Annual reviews of the code will enable the council to ensure that its arrangements are current and relevant.

The Council has adopted a scheme of delegation to Officers and Committees.

The Council has an Overview and Scrutiny Co-ordinating Committee and four Scrutiny Panels which mirror the portfolios.

The Council has its own Standards Committee which, among its functions:

- Promotes and maintains high standards of conduct by councillors and co-opted members, including overseeing the code of conduct
- Oversees the Council's whistleblowing policy

The Council's Monitoring Officer advises relevant managers of new legislation and compliance with the Council's own corporate framework.

Responsibility for Compliance with operational policies rests with the relevant Service Unit Head.

The Council has a nominated responsible Financial Officer in compliance with s151 of the Local Government Act 1972. The principal responsibilities of this officer include:

- How financial management is determined
- Financial reporting and monitoring arrangements
- Compliance with Accounts and Audit Regulations 2003
- Compliance with financial codes of practice

Operational

The Corporate Plan establishes the Council's principal objectives.

Performance against the plan is supported by a performance management system.

The Council has a Risk Management Strategy and a risk register has been created to contain the strategic risks to the Council. A risk management group has been formed to meet regularly to support the implementation of risk management into operational areas. Further work is planned to ensure that operational risks are identified and managed.

Management Team and Service Unit Heads are responsible for economical, effective and efficient use of resources as required by the duty of best value.

All services that have been subject to Best Value Reviews have service continual improvement plans that have been approved by Cabinet.

The Council has a performance management framework that regularly reports on key targets and indicators to Cabinet including:

- The role of performance management system
- Training of relevant staff
- Continual development of the project management framework

The Council has developed Member and Officer Codes of Conduct to support the Council in its duties and obligations and a system of staff appraisal and competencies.

The Council has other policies and plans which support the general operation of governance across the Authority namely:

- Asset management plan and capital strategy
- Medium term financial plan
- Fraud policy
- Training plan

REVIEW OF EFFECTIVENESS

Salisbury District 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 internal control 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 2004/5 the Council undertook a review of the effectiveness of the systems of internal control. The review included:

- The annual report of the Chief Internal Auditor
- Continual monitoring by the s151 Officer and Monitoring Officer of reports prepared for Cabinet and Council.
- Assurance statements by the senior managers of the council covering their areas of responsibilities.
- The annual audit management letter from the Audit Commission.
- Review by Management Team of the results.

The Audit Committee and Council have reviewed the Statement and action plan prior to signature. The newly established Audit Committee will undertake a review of the process of compiling the Statement during 2005 and in future years will monitor the assurance framework.

Findings of the Review

Internal audit operate to a risk based audit plan that is approved annually. An annual report is made to the Audit Committee that details the level of assurance that has been given for each audit area in the year and an overall opinion. The report also identifies those internal control issues, which in the opinion of the Chief Internal Auditor should be included in the Statement of Internal Control. The Audit Commission has confirmed that Internal Audit operates to the standards required by the Code of Practice for Internal Audit in Local Government in its most recent Annual Audit Letter. The Council is therefore justified in relying upon the opinion of Internal Audit.

The Audit Commission published its Comprehensive Performance Assessment of the Salisbury District Council in May 2004. The Council was rated as 'good'. The CPA included an assessment of financial standing, systems of internal financial control, standards of financial conduct, financial statements and legality of significant financial transactions.

The Annual Audit letter from the Audit Commission was reported to Cabinet. The audit letter reports on audit and inspection work at Salisbury, including the accounts, financial aspects of corporate governance, performance management and inspections.

Management Team has advised the Council of the implications of the 2004/5 review of the effectiveness of the system of internal control.

SIGNIFICANT INTERNAL CONTROL ISSUES

<u>Internal Control Issue</u>	<u>Proposed Action</u>
<p>6 Payroll</p> <p>For much of 2004/5 and to date the operation of payroll has been undertaken by only one member of permanent staff who is also responsible for the system administration and control functions of the system. Improvements are required to avoid the dependence on a key individual and to introduce more effective management control.</p>	<p>Explore the avenues for expanding the number of people with payroll skills, including the possibility of relocating the function.</p> <p>To be completed by April 2006.</p>
<p>7 Risk management</p> <p>The extension of the risk management policy into operational risk areas and further management training to support it. The Risk Management Group has been tasked with taking this forward, but as at this date the work is outstanding.</p>	<p>Risk Management Group to establish operational risk registers for each unit and identify supporting training programme for middle managers</p>

<p>8 <u>IT security policy & corporate standards</u></p> <p>Whilst many practical controls are effective in the council's corporate network and in the various application systems, the council has no IT security policy and no corporate standards or guidelines by which application systems should be managed. These are required to support the council's progress towards ISO17799 compliance as set out in the council's ICT Strategy.</p>	<p>The production of IT security policy and corporate standards will be one of the projects forming part of the Information Management Programme, for which a PID is currently in course of preparation. The Information Security Manual that will be produced as part of the project will contain guidelines by which application systems should be managed.</p> <p>To be completed by 30th September 2005.</p>
<p>9 <u>Programme and project management</u></p> <p>This is an area that the council has sought to improve with the introduction of a new project management framework, project management training and introduction of more effective performance management mechanisms. Effective application in practice needs to be ensured to support the council's planned service improvements</p>	<p>The Council has established an overall analysis of the resource required to carry forward its integrated improvement programme. This will be developed to monitor progress, compare resources with demand and as a tool for managing projects accordingly.</p>
<p>10 <u>Business continuity & disaster recovery</u></p> <p>This was included in the 2003/4 SIC and since then there has been progress through a detailed audit report and the commencement of work by the Risk Management Group. A report on the service priorities of the Council has been made to Cabinet. As at the date of submission of the SIC to Council satisfactory arrangements will not yet be in place.</p>	<p>Risk Management Group to establish a work programme to build on and renew the current business continuity plans to make them robust enough to deal with future risks. An interim progress report was made to the June meeting of the Cabinet, with a further report scheduled for six months thereafter.</p>
<p>11 <u>Proceeds of crime act</u></p> <p>12 There is a legal duty to appoint a Money Laundering Officer, which is temporarily undertaken by the Section 151 officer. Training needs to be given to the relevant officers dealing with receipt of monies.</p>	<p>Policy to be developed as part of treasury management review to raise awareness and then training to be given to officers dealing with receipt of money.</p> <p>Policy and training programme to be completed by 31st December 2005</p>

..... **Richard Sheard (Chief Executive)**

..... **Cllr Ted Draper (Chairman of the Council)**