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Report

Report subject: Statement on Internal Control

Report to: Audit Committee

Date: 13ᵗʰ June 2006

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1   Background

1.1   The Council is required by the Accounts & Audit Regulations 2006 to undertake an annual assessment of the effectiveness of its system of internal control and report this to those charged with governance. The Statement and the action plan to address identified weaknesses will be published with the Statement of Accounts of the council. Approval to the Statement will be given by Full Council prior to signature by the Acting Chief Executive and Chairman of the Council.

2   Assessment of Internal Control during 2005/6

2.1   The assessment of the council's risk management and internal control arrangements have been informed by the following processes:

- Assessment of risk maturity and risk management action plan carried out by the Risk Management Group and reported to Audit Committee in April.
- Review of the action plan resulting from the 2004/5 Statement on Internal Control and recommendations of actions to carry forward to the 2005/6 action plan. This was reported to Audit Committee in April
- Managers' Assurance Statements reviewed by the Management Team. A summary of the statements is attached as an Appendix.
- Internal Audit Annual Report, reported to this Audit Committee.
- Assessment of the effectiveness of Internal Audit, reported to this Committee.
- Reports from the Audit Commission, principally the Annual Audit & Inspection Letter reported to Audit Committee in April.

3   Conclusions

3.1   On the basis of the review five areas have been identified for inclusion in the action plan for the 2005/6 Statement on Internal Control.

4   Recommendation

4.1   The Audit Committee is asked to approve the Statement on Internal Control for 2005/6 together with the action plan and to make recommendations to Full Council that will be meeting on 26 June 2006.

Implications:

▪ **Financial:**
▪ **Legal:**
▪ **Human Rights:** None
▪ **Personnel:** None
▪ **Community Safety:** None
▪ **Environmental Impact:** None
▪ **Council's Core Values**: Excellent service, open learning council and a willing partner.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

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 2006 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 Committee has appointed two independent members to contribute expertise in these matters to the Committee.

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
- Overviews 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 2006
- 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 2005/6 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.

A new requirement from the 2006 Amendment to the Accounts and Audit Regulations is that there should be a review of the effectiveness of Internal Audit as part of the annual review of the effectives of internal control. The Audit Committee has considered a self-assessment of the effectiveness of Internal Audit.

The Audit Committee and Council have reviewed the Statement and action plan prior to signature. The Audit Committee will review the process of compiling the Statement and monitor the assurance framework and action plan.

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 Committee were satisfied that the system of Internal Audit was effective and that plans are in place for improvement and development.

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. During 2005/6 the Audit Commission made an assessment of the Use of Resources. The overall assessment on Use of Resources was that the council was performing well and consistently above minimum requirements.

The Annual Audit & Inspection Letter from the Audit Commission was reported to the Audit Committee. 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 2005/6 review of the effectiveness of the system of internal control.

SIGNIFICANT INTERNAL CONTROL ISSUES

Internal Control Issue	Proposed Action
Administration and management of payroll During 2005/6 there has been an absence of separation of duties between the system administration functions of the personnel and payroll system, payroll processing and maintenance of key personnel records such as the establishment list. In addition there has been an absence of management checks, which resulted in incorrect standing data.	In March 2006 the payroll function was transferred to Financial Services from Personnel and Training. This has introduced a greater separation of duties. Further work is planned to improve the level of management control during 2006/7. Responsible officers: Head of Financial Services and Head of Personnel & Training Target date for completion: 30th June 2006
Risk management The extension of the risk management policy into operational risk areas has continued but is not yet comprehensive.	An action plan and work programme for the Risk Management Group has been established. This includes training for managers on risk management. Responsible officer: Acting Chief Executive Target date for completion:
IT security policy & corporate standards 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	A comprehensive security policy incorporating high level guidelines for the operation of the councils application systems will be developed over the course of the year. Responsible officer: Head of IT Services

towards ISO17799 compliance as set out in the council's ICT Strategy.	Target date for completion: 310307
Business continuity Included in the SIC since 2003/4. During 2005/6 progress has been made on disaster recovery arrangements and a business continuity group formed to identify appropriate actions. Comprehensive business continuity arrangements are not yet in place however and with the planned relocation of services and planned building works on the Bourne Hill site this will remain a key issue for 2006/7.	Service Units have all been tasked with updating business continuity plans in preparation for decant and building works. Responsible officer: All Service Unit Heads Target date for completion: 30th September 2006
Proceeds of crime act Further awareness of money laundering is desirable.	To reinforce money laundering policy and promote via 'link up' and include in induction package for relevant staff. Responsible officer: Head of Financial Services Target date for completion: 30th September 2006

…………………………………… **David Crook (Acting Chief Executive)**

…………………………………… **Cllr Mrs Spencer (Chairman of the Council)**

SDC Statement on Internal Control
Manager's Assurance Statements - SDC Summary

Are all services aligned with corporate objectives? (SDC - AS)
This Year to Date (Last Value)

Commentary (2005/Q4)

Based on 14 Service Units a target score of 14 x 1 = 14 would represent a statement of No Concern for the council overall.

Summary of Service Unit Action Plans:

Development Services - continue to adapt and evolve the Development Services Integrated Performance Plan. The current priority is to enhance the quality of customer service utilising e-measures where possible.

Environmental Services - review the unit structure following appointment of new SUH. Service plan to be submitted to cabinet in June 2006. Further srvice review and subsequent improvement plan to be submitted to Cabinet in 2006-7. Policy to be submitted to Cabinet in 2006/07.

Forward Planning & Transportation - Advertise vacancies in Transportation team asap. Develop service improvement plans for Forward Planning and Conservation, Car Parking and Transportation.

Legal and Property - advertise vacancies. Develop service improvement plan.

Period Table

	Actual	SDC Target	SDC Target - Index Range
2005/Q4	19.000	14.000	Near Target

SDC Statement on Internal Control
Manager's Assurance Statements - SDC Summary

Are all business risks properly managed? (SDC - AS)
This Year to Date (Last Value)

Commentary (2005/Q4)

Based on 14 Service Units a target score of 14 x 2 = 28 would represent a statement of Some Concern for the council overall.

Summary of Service Unit Action Plans:

Development Services - The Development Services Integrated Improvement Plan will continue to monitor and evolve work strands that ensure retention positive initiatives are up to date and relevant. The strategic objectives of the business will be under continual review in order to maximise the balance between speed, quality and cost.

Environmental Services - Business Continuity and Disaster Recovery Plan will be updated in 2006.

Financial Services - To reinforce money laundering policy and promote via link up.

Forward Planning & Transportation - Develop risk registers for key services.

Housing Management - Continue to monitor risk assessment.

ICT Services - The Councils recently established Business Continuity Group needs to ensure that adequate progress is made so that all SU's have workable plans in place to cater for the interuptions in service that will inevitably occur.

Revenues & Benefits - Service areas are annually audited and risks identified- all risks are managed from the audit action plan.

Strategic Housing Services - The Council will be closely involved with this strategic review from a commissioning perspective.
Staff have been instructed to focus on arrears, this will be closely monitored. A best value review exercise is to be undertaken on proposed retained functions. Business Plan to be reviewed in November 2006.

Period Table

	Actual	SDC Target	SDC Target - Index Range
2005/Q4	22.000	28.000	On Target

SDC Statement on Internal Control
Manager's Assurance Statements - SDC Summary

Are your key controls effective? (SDC - AS)
This Year to Date (Last Value)

Commentary (2005/Q4)

Based on 14 Service Units a target score of 14 x 2 = 28 would represent a statement of Some Concern for the council overall.

Summary of Service Unit Action Plans:

Development Services - As part of the Development Services integrated Improvement Plan will be evaluating the procedures manual to ensure they are all up toi date. In addition Building Control are working towards certification iaw ISO9001-2000, with an intention that Development Control will follow suit. This will need to be reviewed as part of the Customer 1st Partnership and shared services.

Environmental Services - Investment required as part of office decant to secure and improve main access gate into depot.

Forward Planning & Transportation - Develop risk registers for key services.

Housing Management - Continue with performance monitoring.

ICT Services - Continue work through auspices of IM programme Board.

Revenues & Benefits - Annual internal and external audits test the key controls in all service areas-audits have provided substantive and full assurances in all service areas.

Strategic Housing Services - Staff resources are being targetted to reduce rent arrears.

Period Table

	Actual	SDC Target	SDC Target - Index Range
2005/Q4	21.000	28.000	On Target

SDC Statement on Internal Control
Manager's Assurance Statements - SDC Summary

Are all resources effectively utilised? (SDC - AS)
This Year to Date (Last Value)

Commentary (2005/Q4)

Based on 14 Service Units a target score of 14 x 1 = 14 would represent a statement of No Concern for the council overall.

Summary of Service Unit Action Plans:

Democratic Services - Review effectiveness and delivery of the Council's Strategy for achieving efficiencies annually along with quarterly updates on material actions and a mid year update for all as a minimum. Adoption of corporate policy on mobile phone provision and use.

Development Services - BST and the office project coupled with the digital challenge and customer service initiatives will need will need a corporate approach over the 2006 and careful management to ensure service provision in terms of speed and quality are maintained. Quality of customer service is a priority for 2006. Remote working will need to be assessed in the context of equipment and achieving corporate occupancy targets. Efficiencies need to be assessed as part of the BST concept.

Forward Planning & Transportation - Develop service improvement plans for key services and monitor customer service and office projects for changes affecting FP&T.

Housing Management - Pursue stock transfer with ballot of tenants in October 2006.

ICT Services - To continue project monitoring and resource allocation by virtue of eGov Board, ICS Board and bi-weekly Service Unit project meetings.

Strategic Housing Services - Details are set out as per Business Risk Management.

Period Table

	Actual	SDC Target	SDC Target - Index Range
2005/Q4	18.000	14.000	Near Target

SDC Statement on Internal Control
Manager's Assurance Statements - SDC Summary

Do all decisions taken have due regard for legality, probity and compliance? (SDC - AS)
This Year to Date (Last Value)

Commentary (2005/Q4)

Based on 14 Service Units a target score of 14 x 1 = 14 would represent a statement of No Concern for the council overall.

Summary of Service Unit Action Plans:

Democratic Services - Code of Conduct (potentially damaging for the reputation of the Council), to be dealt with as part of the induction for new elected members.

Development Services - The DSIIP will address any work streams required as a result of changes to any policy of the council or law.

Environmental Services - Review licensing policy by July 2006 and report to Cabinet.

Forward Planning & Transportation - Develop service improvement plans.

Period Table

	Actual	SDC Target	SDC Target - Index Range
2005/Q4	18.000	14.000	Near Target