

Agenda item No. 6

Title: **Statement on Internal Control**

Lead Member: **Cllr While – Finance Portfolio Holder**

Reporting officer: **Ian Jamieson – Head of Finance**

Purpose

To present the 2006/2007 annual Statement on Internal Control for approval.

Background

The Statement on Internal Control forms part of the statement of accounts. It is a statement describing the control environment in operation for the year of the accounts. The format is in accordance with best practice as set out by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The review of the control environment is informed by the work of internal audit, external audit, risk management and the Head of Finance.

The statement has been reviewed by the Head of Finance, Corporate Management Team, Chief Executive and Finance Portfolio Holder.

The statement was considered in draft by the Audit Committee at its meeting on 19 March 2007. There have been two main changes:

1. The improved score under Use of Resources
2. The addition of Private Sector Housing renewal as a significant control issue.

Key Issues

Members review the statement and consider the accuracy and fairness of representation of the control environment and the significant control issues.

Effect on strategies and codes

These are contained in the statement.

Risk management implications

These are contained in the statement.

Finance and performance implications

These are contained in the statement.

Legal and human rights implications

There are no direct legal or human rights implications.

Next steps

The Head of Finance develops an action plan to deal with the significant control issues and reports regularly on progress to the Audit Committee.

Recommendations

The Statement on Internal Control is approved.

Background Papers: Final Accounts Working Papers – Room 33

Statement on Internal Control

1. Scope of Responsibility

West 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 and 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, in which its functions are exercised, having regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring 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.

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 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 West Wiltshire District Council for the year ended 31 March 2007 and up to the date of approval of the accounts.

3. The Internal Control Environment

The key elements of the Council's internal control environment are described below: -

The monitoring of performance

The Corporate Plan 2005-2010 was refreshed in December 2006 and provides strategic direction and a focus for resources and service delivery. This is supported by a Performance Management framework, which sets out arrangements to monitor progress towards the achievement of national and local targets with quarterly reporting of overall corporate performance to Cabinet and to Scrutiny Committee.

Performance monitoring in 2006/2007 will end with a review of achievements and the publication of the Corporate Performance Plan on 30 June 2007.

The facilitation of policy and decision-making

The Council has a written published Constitution, which defines the decision making arrangements and the responsibilities for different functions. A new

Constitution was developed in 2005/2006 and approved by Council for immediate implementation at its meeting on 12 April 2006. This has been reviewed by the Standards Committee and changes were agreed by Council on 21 February 2007.

There are clear rules of procedure for the running of business meetings and lists of delegated authorities to individuals. Each report, which recommends decision making by members of the Council, receives legal and financial consideration before it is finalised.

The Cabinet has published a 6 month Forward Plan of Decisions to be taken and meets in public on at least a 6 weekly basis. This, together with an appropriate level of delegation to senior managers enables speedy decision making.

The compliance with established policies, procedures, laws and regulations

The Council's Standards Committee's work includes reporting on proposed changes to the Constitution, overseeing complaints to the Ombudsman, member training and Code of Conduct issues. The Scrutiny Committee monitors the executive decision making as one of its main roles and also conducts topic-based reviews.

A Local Code of Corporate Governance was adopted in 2003. The potential for improvements to the Constitution and Corporate Governance is being reviewed in the summer 2007.

The Chief Financial Officer and Monitoring Officer have specified roles within the Constitution to ensure reports prepared for member decision comply with the budget and policy framework. The Chief Financial Officer and Monitoring Officer are members of the Corporate Management Team.

An open and transparent approach is taken to business with all members of the Council receiving copies of Cabinet agendas, which are available on the Council's website. Each agenda for a business meeting contains an item requiring members at the outset of the meeting to declare interests. Members are encouraged to undertake training relevant to the area of decision making in which they are involved. A formal member training program was introduced for 2006/07.

A number of specific policies have been developed to enhance the control issues. These are available on the Intranet for all staff to read and cover: officer's code of conduct, whistle blowing, staff appraisal, managing capability and corporate fraud and corruption. A new performance related complaints system was introduced in January 2006 and has recently been reviewed.

The corporate risk management process

The Council has been active in risk management since 1996 and the arrangements for risk management have continued to be developed, reviewed and updated. Following a review in June 2004 the Council now has a Risk

Management Strategy, Policy, Strategic and Service Risk register and a proactive Risk Management Group.

The Council recognises that it has a responsibility to manage risks and supports a structured and systematic approach to managing them

The financial management of the Authority

The Council's overall financial arrangements are governed by its Medium Term Financial Plan, which sets out the financial framework for the delivery of the Council's strategies and plans as outlined in its Corporate Plan. Resource allocation is achieved through a Service and Resource Planning process linking corporate plan priorities and service objectives to resource requirements.

In determining the revenue and capital financial framework a number of factors are taken into account, including the national context, the distribution of local government funding by central government, together with local and external funding sources.

The amount of grant West Wiltshire received for 2006/07 was restricted by a government imposed scaling factor. In total this amounts to £599,000, which is equivalent to a 10% council tax increase. Clearly the level of scaling factor for future years will continue to present uncertainty around the level of council tax and make accurate forward planning very difficult. The move to 3 year settlements will help to reduce some of the uncertainty.

The Council has robust budget monitoring arrangements and has detailed arrangements regarding the management and control of financial resources, set out as 'Financial Procedure Rules', which form part of the constitution. Regular monthly meetings take place between the Accountants and Service Managers (who are responsible for their budgets) with monthly financial monitoring reporting to Corporate Team, Cabinet and quarterly reports to Scrutiny Committee.

All borrowing and investment is undertaken in accordance with the Treasury Management Policy Statement, which is approved by Council on an annual basis. The Treasury Management function is supported by external advisors.

4. The Review of Effectiveness

West Wiltshire District Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The systems of internal control are regularly monitored by the Council, supported by a structure comprising the Corporate Management Team, Cabinet, Scrutiny Committee, Audit Committee and Standards Committee. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors, risk management, service managers and comments made by the external auditors and other review agencies and inspectorates.

Authority

The Council has established its future priorities and operates a Performance Management Framework, which regularly monitors achievement against these priorities through Corporate Management Team, Cabinet and Scrutiny Committee.

The Council reviewed its arrangements for Corporate Governance in 2003/04 in accordance with the guidance published in the CIPFA/SOLACE framework document 'A keystone for Community Governance'.

Scrutiny Committee can review Cabinet decisions; two reviews were made in 2006/07. The first led to an amendment to PFI consultation and the second around a lease transfer identified a number of issues and safeguards to be included. All Scrutiny Committee minutes are taken to Council and at the year-end there is an annual report.

The Audit Committee provides independent assurance of the adequacy of the risk management framework and the associated control environment, reviews financial performance for impact on risk and controls and oversees the financial reporting process.

Comprehensive Performance Assessment (CPA)

The Audit Commission carried out a CPA of the Council in January 2004. The Council was assessed as 'fair' with good prospects for improvement. The financial performance scoring 3 out of a maximum of 4. All of the recommendations arising from the CPA have been actively pursued as part of a 3-year improvement plan. The good progress on this was confirmed by the recent IDEA inspection. Their final report in February 2007 stated;

“The council has made great strides since CPA. The improvement plan arising from the inspection led WWDC to undertake an ‘improvement journey’ that has changed the council into an ambitious, vibrant and focussed organisation.”

From 2006, the Commission will only undertake re-categorisation activity where there is significant evidence of a potential change from the original CPA category:

- where a council requests re-categorisation and is able to demonstrate significant evidence of improvement; or
- where the Commission identifies evidence of significant deterioration.

To assist with future reviews two new assessments have been introduced.

1. Use of Resources

This looks at the financial management of the authority and the links to strategy management, supporting council priorities and delivering value for money.

Overall the Council scored 3 ‘performing well’ (on a four point scale 1 lowest

and 4 highest). The areas requiring further work have been identified in a Use of Resources action plan to be considered by Corporate Management Team.

2. Direction of Travel

This provides focus for continuous improvement and will form part of any CPA scoring mechanism. It is an overall assessment of the Council's progress against the Corporate Plan. The main concern in this area is the need for a focussed approach that allows for a better understanding of areas where step changes may be required. The Council remains committed to continuous improvement and is undertaking work starting in April 2007 to achieve above median performance in planning and revenues and benefits.

Risk Management

Significant progress has been made in this area. A major review took place in 2004 and a specific project set up to develop Risk Management policy and procedures. This is an on-going process and achievements in 2006/07 are given below:

- Business Continuity Plan (draft) - July 2006
- quarterly review by Corporate Management Team of all strategic risks
- delivery of strategic risk management training to Members - September 2006
- continued integration of risk management into the Service and Resource Planning process - February 2007
- Internal Audit review of risk management - October 2006
- update of risk register to include service and strategic risks - April 2006

Internal Audit

The role of the Internal Audit Service is to review the internal control framework, which governs the operations of the Council and, in doing so, provide an independent opinion to both management and members on the robustness of the Council's control environment. This opinion analyses and evaluates whether there is an adequate and effective system of internal control in respect of all accounting, financial and other operations of the Council

The Internal Audit Service at West Wiltshire is delivered through an external contract with KPMG. The approach is fully compliant with CIPFA's Code of Internal Audit Practice and the Accounting Practice Board's Guidelines for Internal Audit.

The Audit Plan is based on risk assessment with direct input from service managers. The plan identifies the work to be performed, covering core fundamental systems and operational audits and liaison with external auditors.

The Annual Internal Audit Report provides a summary of audits performed during the past year and contains the formal opinion on the adequacy of the Council's systems of internal control and will specifically identify any area for inclusion within the annual Statement on Internal Control. No areas were identified for inclusion in 2006/07. All audit reports are presented to the Audit

Committee.

5. Significant Internal Control Issues

The effectiveness of the system of internal control operated by the Council has been reviewed and the following plan is in place to address significant weaknesses and ensure continuous improvement of the system.

Corporate Governance

A review of Corporate Governance arrangements will take place:

- update and promote awareness amongst members
- embed within the Council.
- checking compliance with best practice
- embed the Corporate Anti Fraud and Corruption strategy.
- Scrutiny Committee to continue to embed best practice

Asset Management

The Asset Management Group will work to embed good asset management within the Council and continue with the implementation of the action plan.

- review performance and budget monitoring and reporting
- update local performance measures linking asset use to corporate objectives
- update asset valuations for the financial statements
- improve decision making process on asset investment/disposal
- develop integration of asset management and other information

Section 106 Agreements

The current arrangements have been reviewed and new procedures and processes put in place to ensure efficient and effective delivery. This applies to all new agreements. The new processes and procedures need to be embedded across the Council and further work carried out to update historical S106 agreements.

Management of Contracts

The arrangements for promoting, letting and managing of contracts have been reviewed and a corporate framework for contract management adopted. This will be rolled out across the Council and the procurement group will issue guidance and set up workshops to cover the following:

- Promoting the council to potential contractors
- Consider risk and community benefits and seek continuous improvement
- Ensure staff continuity and level of expertise

Private Finance Initiative (PFI)

The project is progressing and approaching a number of key stages, with risks that need to be carefully managed.

- Bidder selection - sufficient quality bidders to ensure market competition
- Land assembly - provide sufficient land with planning permission
- Set up costs - keep expenditure within agreed budget with adequate contingency
- Other - asset information/condition and changes to design specification

Green Waste

There is a requirement to comply with environmental standards in respect of:

- Meeting a standard for compost BSI PSA 100
- Animal by-products regulations - food and kitchen waste not in green bins

A further review of Council arrangements will be carried out in summer 2007.

Private Sector Housing renewal

The current arrangements for the delivery of this service area have been reviewed and the following changes will be introduced:

- Systems and procedures will be updated/developed and documented
- Application files will have a defined list of documents and certified on completion
- The process for registering charges against properties will be clearly identified and the register will be subject to periodic review.



Chief Executive



Finance Portfolio Holder