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REPORT

Leader of the Council: Councillor K. Wren

Statement of Internal Control

1. Purpose

This report proposes the approval of the Council's Statement of Internal Control for the year 2003/04.

2. Background

2.1 The Accounts and Audit Regulations 2003 (the regulations) introduced a new requirement for local authorities; the conduct of a review at least once a year of its system of internal control and the publication of an annual Statement of Internal Control with the statements of accounts.

2.2 The regulations provide that councils:

"shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk"

The system of internal control therefore includes more than just the financial aspects of a council's business. It includes matters such as the establishment and monitoring of a council's objectives, the arrangements for decision making, ensuring compliance with established policies etc.

2.3 The statement of accounts has to be approved by 31st August 2004 and published by 30th November 2004. The same time limits apply to the Statement of Internal Control. However changes can be made to the latter after approval and before it is published.

2.4 2003/04 is the first year that Statements of Internal Control have to be approved and published and therefore councils are able to take advantage of transitional arrangements. The effect of these is to permit less detailed statements than would otherwise be the case. This is because not all councils will have carried out a full review of its systems of internal control before the deadline for the 2003/04 Statement.

3. Proposed Statement of Internal Control

3.1 As to the content of the statement itself CIPFA has produced guidance and a proforma statement. The council's Statement of Internal Control is based upon

this proforma. It should be noted that the Statement is required to include notification of any significant internal control issues and an action plan to address them.

- 3.2 The council has not yet carried out a full review of the systems of internal control and will therefore be taking advantage of the transitional arrangements.
- 3.3 A member/officer working group is being set up on a task and finish basis to carry out the review and therefore the council should be well placed next year to provide a comprehensive Statement of Internal Control. One of the tasks of the group will be to prepare an action plan to deal with any significant internal control issues.
- 3.4 A draft of the proposed Statement of Internal Control is attached as Appendix I.

4. Recommendation

It is recommended that the Statement of Internal Control attached at Appendix I:

- (1) be approved for adoption, and
- (2) be included in the council's statement of accounts

Background papers

None

5. Implications

Financial :	Contained in the report
Legal :	Contained in the report
Human Rights :	None
Personnel :	None
Community	None
Safety :	
Environmental :	None
Core values :	Excellent service; being fair and equitable; being an open, learning Council

Statement on Internal Control

1. 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.

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 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 2004 and up to the date of approval of the annual report and accounts.

3. 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.

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
- Overviews internal and external audit

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 principle 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. This area is still developing.

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

4. 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 2003/4 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.
- A Comprehensive Performance Assessment report from the Audit Commission and a review by Management Team.
- A report by the Benefit Fraud Inspectorate (Dec 2003)
- The annual audit management letter from the Audit Commission

Findings of the Review

- Internal audit operate to a risk based audit plan that is approved by Cabinet annually. An annual report is made to Cabinet 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 2003/04 review of the effectiveness of the system of internal control.

A joint member and Officer working group has been set up to further determine the effectiveness of the system of internal control during 2004/05. A plan to address weaknesses and ensure continuous improvement of the system will be maintained.

The review is part of a wider Corporate Governance review, against the framework established by CIPFA and SOLACE. As part of the assessment of risk management and internal controls the Council will be reviewing the sources of assurance.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

Controls over Purchasing

A joint audit between the Audit Commission and Internal Audit identified non-compliance with the Council's Financial Regulations relating to purchasing, including insufficient market testing. An action plan has been developed to secure the required improvements and Management Team reviews progress against this. Internal Audit will carry out further testing in 2004/5.

Stock Control

Stores are held for repairs to the Council's housing. The stores control records were found to be incomplete and could not support reconciliation to the actual stock held and purchases. An action plan to resolve this issue will be formulated.

Business Continuity and Disaster Recovery Arrangements

Controls are in place to support IT disaster recovery arrangements but Council wide business continuity plans are out of date and need review. A risk assessment and action plan will be undertaken to manage this risk.

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Chief Executive

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Chairman of The Council