



Statement on Internal Control

RECOMMENDATION

- 1.1 To approve the Statement on Internal Control for 2004/05.
- 1.2 To request the Leader and the Chief Executive to formally sign the Statement on Internal Control.

SUPPORTING INFORMATION

- 2.1 Regulation 4 of the Accounts and Audit Regulations (2003) requires audited bodies to conduct a review, at least once a year, of the effectiveness of its system of internal control and publish a statement on internal control (SIC) each year with the authority's financial statements. The Council's SIC for 2004/5 is shown in Appendix 2. To meet the requirements of the CPA Use of Resources framework, 'an appropriate member group' must approve the SIC, but must consider it separately from the accounts.
- 2.2 The first year of the requirement to produce a SIC document related to the 2003/4 financial year. However, CIPFA's proper practice guidance of April 2004 recognised the difficulty that many authorities would face in fully meeting the requirements of the Accounts and Audit Regulations and allowed for transitional arrangements in 2003/4, with a more comprehensive SIC document being required from 2004/5. CIPFA's guidance anticipated further practical, more detailed advice on compiling the SIC and the governance and risk management arrangements to support it. To aid Local Authorities, the CIPFA Finance Advisory Network produced a rough guide to the SIC in March 2005. The rough guide is primarily intended to support authorities with their requirement to produce the full version of the SIC from 2004/5. This suggested approach has been used to produce the Council's Statement on Internal Control for 2004/5.

- 2.3 The SIC enables the Council to have a better overview of its controls, how they work and whether they are up to date. In particular
- the departmental controls, i.e. the processes which Chief Officers have in place within their departments;
 - the corporate controls which comprise a large number of processes and strategies by which the Council exercises control over the operation of all activities within its remit, such as the Constitution, the Council's financial and service planning processes and codes of conduct; and
 - the independent view, which is provided by Internal Audit, external Audit (PwC), the Audit Commission and various other inspection regimes
- CIPFA's proper practice requires the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) to sign the SIC.
- 2.4 The purpose of the SIC is to provide
- openness
 - accountability
 - assurance to stakeholders
 - a framework for improvement of corporate governance and risk management arrangements
 - a source of evidence for CPA
- The SIC is about providing an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required.
- 2.5 External Audit has a specific role in that it will review the SIC for compliance with proper practice and review the disclosures in it for consistency with its knowledge of the Council.
- 2.6 The difficulty experienced with compiling the SIC for the first time was to establish a sound process and workable framework for providing the assurance required. The assurance gathering process consisted of setting out examples of assurance as detailed in the "Rough Guide" and linking it to the different types of evidence required to support the SIC document. The evidence supporting the SIC is shown in Appendix 3.
- 2.7 The SIC should be reviewed at least once a year. However, it should not be an end of year task. Therefore, assurances on the effectiveness of controls over key risks should be obtained throughout the year.
- 2.8 Assurances for the 2004/5 SIC have been taken from a number of sources. These include:
- Performance Management
 - Internal Audit
 - Risk Management
 - External Audit
 - Reports by inspectors
 - CPA

- 2.9 It is intended to further develop the process over the next 3-4 months, in preparation for the 2005/6 statement, to get a formal system in place for Chief Officers to provide assurance statements. Their purpose will be to ensure that Chief Officers consider the processes that are used in their respective departments, how they are set out and how they can get assurance that everything is working properly. The statements will also highlight how they respond to the external view about their services and how they approach risk, quality management and ensure their services improve. Each statement will be signed off by the respective Chief Officer.

For more information contact: Paul Dransfield 01332 255335 e-mail Paul.Dransfield@derby.gov.uk

Background papers:

List of appendices:

Appendix 1 – Implications

Appendix 2 – Derby City Council Statement on Internal Control 2004/5

Appendix 3 – Evidence to support Assurances

IMPLICATIONS

Financial

- 1.1 The developments outlined in Section 6 of the SIC will be met from existing budgets.

Legal

The statutory reporting requirement for the SIC is linked to the publication of the authority's financial statements, which is 3 months after the deadline for approval

Personnel

None

Equalities impact

- 4.1 None

Corporate objectives and priorities for change

None

Derby City Council Statement on Internal Control

1. SCOPE OF RESPONSIBILITY

Derby City 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 a combination of 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 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 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 on-going 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 Derby City Council for the year ended 31 March 2005 and up to the date of approval of the Statement of Accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

The Key elements of Derby City Council's internal control environment are as follows:

Establishment and monitoring the achievement of the authority's objectives

The Council's priorities and objectives are reviewed on an annual basis as part of the corporate planning cycle. Priorities are established by Council Cabinet in consultation with Chief Officers, taking account of the Council's performance improvement priorities, inspection findings such as CPA, the national agenda for public service improvement and public consultation, such as the 'Simalto' exercise on budget options in November 2004.

The corporate plan identifies actions and resources over a three year period, most recently 2005-08 and the BVPP establishes specific targets to measure progress. Performance is reported to Council Cabinet on a quarterly basis, and is monitored by the Overview and Scrutiny Commissions. Performance information is available across the Council through the *Performance Eye* information system.

Facilitation of policy and decision making

- Derby City Council has adopted a constitution which came into effect on 3 December 2001. This 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.
- The Council Cabinet is the part of the Council that is responsible for most day-to-day decisions. When major decisions are to be discussed or made, these are published in the Council Cabinet's forward plan in so far as they can be anticipated. The Council Cabinet has to make decisions that are in line with the Council's overall policies and budget. If it wishes to make a decision that is outside the budget or policy framework, this must be referred to the Council as a whole to decide.
- In 2004/5 there were five Overview and Scrutiny Commissions, plus a Scrutiny Management Commission which support the work of the Council Cabinet and the Council as a whole. Within Derby City Council Scrutiny has two main roles:-
 - To act as a check and balance on the Council Cabinet, holding it to account for its decisions.
 - To review and help to develop Council policies to ensure that they have a positive impact on the people of Derby.
- The Council has also created five area panels which provide local citizens with a greater say in council affairs. These provide a forum to discuss local issues with the Council's partner organisations and local residents.

Ensuring compliance with established policies, procedures, laws and regulations

The Council has designated the Director of Corporate Services as Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.

Identifying, assessing and managing risks to the authority's objectives

The Council has robust systems in place for identifying and evaluating significant business risks. The key elements of the system include:

The Council has adopted a Risk Management Strategy which aims to embed risk management into the culture and operations of the Council. The aim is to manage risk in accordance with best practice and to make sure that departments have clear accountability for both the ownership and cost of risk and the tools to effectively reduce it.

- The Council has established clear roles and responsibilities and reporting lines within the Council for risk management. incorporating risk management in to all new projects and reviews and into the Council's decision-making, business planning and performance management processes
- The Council has developed risk registers at both corporate and departmental levels. These registers are reviewed annually and are reported through to Cabinet.

- The Council has a Strategic Risk Group which is developing a formal framework to assist the organisation to manage business risks to achieve the Council's strategic priorities and deliver services to the community.

Ensuring the economical, effective and efficient use of resources and ensuring continuous improvement by virtue of the Best Value Duty.

The Council has a programme of service improvement reviews included in the BVPP.

Overarching this is the 'Building on Excellence' change management programme, based on the following strategic areas:

- Customer service
- Procurement
- Accommodation
- eDerby and Business Improvement
- People and Performance.

Building on Excellence provides a structured approach to change and project management, based on Prince2 principles.

Our review programme for 2005-06 will include change management reviews, mainly concerned with business process re-engineering to support the establishment of a new customer contact centre and efficiency reviews to support the Gershon agenda. We are developing a BRP toolkit to support this.

Financial management of the authority and reporting of financial management

The Council has continued to improve its financial management at an operational level through the continued development of financial reporting, profiling of budgets and strategically through its medium term planning of financial commitments. This is underpinned by:

- Professional finance function
- Regular revenue and capital monitoring reports are provided at Cabinet meetings
- Comprehensive budgeting and closedown guidance notes are issued
- The council has a treasury management strategy that reflects the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services
- Budget planning generally takes place over a three year cycle, with indicative budgets being approved for the second and third years of the cycle. This enables the Council to ensure that its plans are affordable over the medium term and to consider early action in the context of any pressures that may be emerging
- Consultation is a key part of the budget process
- General budget risks are highlighted and managed

- Prioritisation within financial planning is closely aligned with the Council's wider corporate planning processes, the aim being to ensure that where funds become available, they are applied to ensure that developments can be prioritised as planned
- Maintaining general reserves at no less than minimum recommended levels and by ensuring that the purpose for which reserves are earmarked are regularly reviewed.

Performance management of the authority and reporting of performance management.

The Council has an agreed performance management strategy, to deliver an effective and fully integrated performance management framework, underpinned by an embedded performance management culture.

Key elements of this strategy are the collection and dissemination of performance information through the *Performance Eye* system, which establishes ownership and accountability for performance among responsible officers, and the regular reporting of performance and improvement actions, both corporately and departmentally.

Performance is reported against all national and local BVPP targets to Chief Officer Group and Council Cabinet each quarter, based on exception reporting according to variance from target with explanation for the causes – and improvement action if below target. Scrutiny Commissions review performance against indicators within their domain of responsibility, using *Performance Eye*, and will include below target indicators as a standing agenda item from 2005-06.

Performance Eye also provides information to support performance management within departments, including through departmental management teams, and the information it contains is being expanded to include more local indicators.

The effectiveness of our performance management strategy and *Performance Eye* implementation have been reviewed by our external auditors.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the work of internal auditors and the senior managers within the authority. and also by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports. Managers have the responsibility for the development and maintenance of the internal control environment,

The following process has been applied in maintaining and reviewing the system of internal control:

- Reports to the Council and Cabinet
- Reports to Scrutiny Commissions on specific areas of responsibility
- Existence of the Council's Financial Procedure Rules and Scheme of Delegation

- The council has an internal audit function that operates in accordance with the CIPFA code of practice for internal audit in local government
- Reports by internal and external audit and other inspection agencies
- Development of the Corporate Plan and specific projects
- Adoption of Treasury Management Practices in line with the Code of Practice on Treasury Management

5. SIGNIFICANT INTERNAL CONTROL ISSUES AND PROPOSED ACTION

The assurance gathering process highlighted no significant internal control issues during 2004/5.

6. DEVELOPMENT OF BEST PRACTICE

As with any well performing organisation there is still a need to implement a programme of continuous improvement. Part of the assurance gathering process was to highlight areas where further enhancements may benefit the Council's systems of internal control and management of risk, thus further contributing to effective corporate governance arrangements. The following areas will feature in the Council's Internal Control Improvement Plan:

- Review the Local Code of Corporate Governance and develop annual assurance statements on governance for each department
- Increase the level of awareness training on key issues eg risk, fraud, financial matters
- Strengthen the communication of new/revised policies to staff
- Introduce a formal programme for the review of key strategies, policies etc
- Implementation of service continuity plans
- Strengthen both corporate and departmental risk registers by the inclusion of expected key controls to manage principal risks
- Review the strengths and weaknesses of the current computerised Risk Register
- Review the follow up arrangements to make sure actions marked out by the Chief Executive have been pursued eg new legislative requirements
- Strengthen Financial Management in the Council through the use of the CIPFA FM Model

.....
Chief Executive

.....
Leader of the Council

ASSURANCE GATHERING PROCESS

Establishing principal statutory obligations and organisational objectives:

Mechanism established to identify principal statutory obligations	
Examples of assurance:	Evidenced by:
Responsibilities for statutory obligations are formally established	This is demonstrated through Constitution Recording individual officer and member responsibilities Minutes of delegations to officers and committees Committee terms of reference Job descriptions of key officers Structure charts
Record held of statutory obligations	Derbynet – document library
Effective procedures to identify, evaluate, communicate, implement, comply with monitor legislative change exist and are used	Weekly Bulletin Managers network Awareness training eg RIPA, Health and Safety Legal implications on reports to members
Effective action is taken where areas of non-compliance are found in either mechanism or legislation	
Mechanism in place to establish corporate objectives	
Examples of assurance:	Evidenced by:
Consultation with stakeholders on priorities and objectives	<ul style="list-style-type: none"> • simalto budget consultation / Derby Pointer - results on Web
The authority's priorities and organisational objectives have been agreed (taking into account feedback from consultation).	<ul style="list-style-type: none"> • Corporate plan includes objectives and priorities. Report to Cabinet include details of process of developing priorities
Priorities and objectives are aligned to principal statutory obligations and relate to available funding	<ul style="list-style-type: none"> • Corporate Plan • Corporate Plan links actions to resources
Objectives are reflected in departmental plans and are clearly matched with associated budgets	Business Planning guidance included on intranet clearly linked to objectives but detail re funding varies Business plans include review of previous year
The authority's objectives are clearly communicated to staff and to all stakeholders.	<ul style="list-style-type: none"> • wide circulation of Corporate Plan and BVPP. Priorities posters • Simalto budget consultation explicitly links service options to impact on Council Tax • Target setting to deliver objectives and priorities through DMTs • website and intranet
Effective corporate governance arrangements are embedded within the authority	
Examples of assurance:	Evidenced by:
Code of corporate governance established	A Code of Corporate Governance in line with CIPFA/SOLACE framework and guidance has been adopted
Review and monitoring arrangements in place	<ul style="list-style-type: none"> • Internal/external audit reports on adequacy of corporate governance arrangements

Committee charged with governance responsibilities	<ul style="list-style-type: none"> • Cabinet
Governance training provided to key officers and all members	<ul style="list-style-type: none"> • Members training • Senior Officers are provided with information • Cabinet report
Staff, public and other stakeholder awareness of corporate governance	<ul style="list-style-type: none"> •
Performance management arrangements are in place	
Examples of assurance:	Evidenced by:
Comprehensive and effective performance management systems operate routinely	<ul style="list-style-type: none"> • Performance Eye • Performance Management Strategy • Cabinet performance reports • BVPP • Business Plans
Key performance indicators are established and monitored	<ul style="list-style-type: none"> • Performance Eye • Approval of BVPP
The authority knows how well it is performing against its planned outcomes	<p>Cabinet and Scrutiny agendas Annual audit and inspection letter reported to Cabinet Comments in Performance Eye CPA review 2004 – Excellent rating Local PIs re Corporate Plan targets, LPSA and LAA Public Service Agreements - LPSA1 concluded 31 March. LPSA2 in negotiation. Pilot LAA in place Regular budget monitoring reports Performance networks in Commercial Service, Housing benchmarks - D Homes</p>
Knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes	<p>Monitoring reports - cabinet and scrutiny agendas Detailed performance results included in results and Performance Eye BVPP Corporate Plans</p>
The authority continuously improves its performance management	<p>annual update of Performance Management strategy PWC audits of Performance Management Strategy and Performance Eye implementation Implementation of Performance Eye in July 2004</p>

Identify principal risks to achievement of objectives

The authority has robust systems and processes in place for the identification and management of strategic and operational risk	
Examples of assurance:	Evidenced by:
<p>There is a written strategy and policy in place or managing risk which:</p> <ul style="list-style-type: none"> Has been formally approved at political and risk management board (or equivalent) level Is reviewed on a regular basis Has been communicated to all relevant staff 	<p>Approved Risk Management Strategy and policy document</p> <p>Internet (under Council Performance)</p> <p>Briefings and awareness sessions held on risk management eg Schools</p>
<p>The authority has implemented clear structures and processes for risk management which are successfully implemented and:</p> <ul style="list-style-type: none"> Management board and elected members see risk management as a priority and support it by personal interest and input Decision making considers risk A senior manager has been appointed to "champion" risk management Roles and responsibilities for risk management have been defined Risk management systems are subject to independent assessment Risk management is considered in the annual business planning process 	<p>Reports to Cabinet</p> <p>Director of Finance is "Risk Champion"</p> <p>Head of Audit and Risk Management – corporate role</p> <p>All Chief Officers are aware of responsibilities</p> <p>Strategic Risk Group – departmental risk champions</p> <p>Business plans and financial plan assess risks as appropriate and in particular take account of new and emerging risks facing the authority</p>
<p>The authority has developed a corporate approach to the identification and evaluation of risk which is understood by all staff</p>	<p>STORM Methodology</p> <p>Dissemination through departmental management teams</p>

Examples of assurance:	Evidenced by:
The authority has well defined procedures for recording and reporting risk	Risk management strategy and policy Corporate risk register Monitoring of risks Reporting of risk to Cabinet and Scrutiny Risk based auditing
The authority has well-established and clear arrangements for financing risk	Evidence that the authority's policy for risk financing is regularly reviewed in the light of costs and alternative risk mitigation strategies All legal requirements for insurance are met Evidence that self-insurance provisions are subject to annual independent actuarial valuation and that contributions to the fund are adjusted accordingly Insurance claims being managed in accordance with 'Woolfe' principles Monitoring the incidence of successful and unsuccessful claims
The authority has developed a programme of risk management training for relevant staff	Training purchased from Zurich Municipal on for risk management Communication via Strategic Risk Group Appropriate responsibilities for risk management incorporated into job descriptions and appraisals
The corporate risk management board (or equivalent) adds value to the risk management process by: Advising and supporting corporate management team on risk strategies Identifying areas of overlapping risk Driving new risk management initiatives Communicating risk management and sharing good practice Providing and reviewing risk management training Regularly reviewing the risk register(s) Coordinating the results for risk reporting	Strategic Risk Group Risk Management Fund Minutes of SRG to COG Reports to Cabinet on Risk Register reviews

Examples of assurance:	Evidenced by:
<p>A corporate risk officer has been appointed with the necessary skills to analyse issues and offer options and advice and:</p> <ul style="list-style-type: none"> Support decision making and policy formulation Provides support in the risk identification and analysis process Provides support in prioritising risk mitigation action Provides advice and support in determining risk treatments Inspires confidence in managers 	<p>Head of Internal Audit and Risk Management</p> <p>Use of consultancy - Risk management brokers</p> <p>Reports to COG on risk management issues</p> <p>Membership of ALARM</p>
Managers are accountable for managing their risks	<p>Departmental risk assessments - manager involvement in risk identification and analysis process</p> <p>Risk owners detailed in corporate /departmental risk register(s)</p> <p>annual review of risk at service/operational levels</p>
Risk management is embedded throughout the authority	<p>Managers involvement in risk management aspects of business planning</p> <p>Project management</p>
Risks in partnership working are fully considered	<p>Risk assessments undertaken before the commencement of major projects eg PFI</p> <p>Risk assessment reviewed during the project period</p> <p>Partnership arrangements are reviewed in terms of risk before they are entered into</p>
Where employed, risk management information systems meet users' needs	Under development

Identify key controls to manage principal risks

The authority has robust system of internal control which includes systems and procedures to mitigate principal risks	
Examples of assurance:	Evidenced by:
There are written financial regulations in place which have been formally approved, regularly reviewed and widely communicated to all relevant staff: Authority has adopted CIPFA code on Treasury Management (note: recent legislative requirement by virtue of the prudential code) Compliance with the Prudential Code	Financial Procedure Rules part of Constitution Intranet Internal audit reports Financial Matters report to Cabinet Annual treasury management and investment strategy Outturn report on treasury mgt. Awareness course on Prudential Code Internal audit of Prudential Code compliance
There are written contract standing orders in place which have been formally approved, regularly reviewed and widely communicated to all relevant staff	Contract Procedure Rules part of Constitution All relevant employees were made aware
There is a whistle blowing policy in place which has been formally approved, regularly reviewed and widely communicated to all relevant staff	Confidential Reporting Code On the intranet
There is a counter fraud and corruption policy in place which has been formally approved, regularly reviewed and widely communicated to all relevant staff	Anti- fraud and corruption policy and strategy Internet/intranet Participation in National Fraud Initiative Draft Fraud Response Plan Register of gifts and hospitality
There are codes of conduct in place which have been formally approved and widely communicated to all relevant staff	Member and Employee Codes of conduct) All members and staff are required to sign
A register of interests is maintained, regularly updated and reviewed	Register of interests (members and staff) Regular updating and review by senior officer(s)

Examples of assurance:	Evidenced by:
Where a scheme of delegation has been drawn up, it has been formally approved and communicated to all relevant staff	Scheme of delegation incorporates adequate controls and sanctions Constitution Accessible on intranet site
A corporate procurement policy has been drawn up, formally approved and communicated to all relevant staff	New Procurement policy On Intranet
Business/service continuity plans have been drawn up for all critical service areas and the plans: Are subject to regular testing Are subject to regular review	Business/service continuity plans being drawn up Role of County Emergency Planners based at Derby City
The corporate/departmental risk register(s) includes expected key controls to manage principal risks	Risk owners are assigned to manage principal risks
Key risk indicators have been drawn up to track the movement of key risks and are regularly monitored and reviewed.	
The authority's internal control framework is subject to regular independent assessment	Internal audit plans and reports Annual report/opinion of Head of Internal Audit External audit reports CPA assessment
A corporate health and safety policy has been drawn up, formally approved, is subject to regular review and has been communicated to all relevant staff	Health & safety policy Approved by Cabinet – signed by Leader and Chief Executive Copy on Derbynet Dissemination via leaflet and also at corporate induction System in place for reporting incidences
A corporate complaints policy/procedure has been drawn up, formally approved, communicated to all relevant staff, the public and other stakeholders is regularly reviewed	<ul style="list-style-type: none"> • Complaints policy/procedure exists • Corporate Complaints Officer • Procedure is compliant with all relevant statutory requirements • Procedure is on the website and intranet site • Leaflets highlighting complaints procedure • All complaints are logged • Complaints files