9. STATEMENT ON INTERNAL CONTROL

9.1 SCOPE OF RESPONSIBILITY

Chester-le-Street 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. Chester-le-Street District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Chester-le-Street District Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Chester-le-Street District Council's functions and which includes arrangements for the management of risk.

9.2 THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

An internal control system encompasses the policies, processes, tasks, behaviours and other aspects of the organisation that taken together:-

- Facilitate its effective and efficient operation by enabling it to respond appropriately to significant risks to achieving the organisation's objectives;

- Help to ensure the quality of internal and external reporting, and

- Help to ensure compliance with relevant laws and regulations, and internal policies with respect to the conduct of business.

The system of internal control is designed to manage risk reasonably rather than to eliminate all risk of failure to achieve the Council's policies, aims and objectives. It can, therefore, only provide reasonable, and not absolute, assurance of effectiveness.

The system of internal control is based upon an ongoing process designed to:-

- Identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;

- Evaluate the likelihood of those risks being realised, and the impact should they be realised; and

- Manage them efficiently, effectively and economically.

The system of internal control has been in place at Chester-le-Street District Council for the year ended 31 March 2006, and up to the date of approval of the annual report and accounts.

9.3 THE INTERNAL CONTROL ENVIRONMENT

The internal control environment supports the Council in establishing, implementing and monitoring its policies and objectives. It comprises a framework of policies, procedures, rules, delegation and accountability, management supervision and management information.

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

Establishing and monitoring the achievements of the Council's objectives

▪ The first Community Strategy for the District was originally published in March 2004, the updated Community Strategy for 2006-16 was agreed by the Local Strategic Partnership on 23 May 2006. The strategy is supported by an action plan which will be performance managed by the LSP. Following the review the strategy is shortly to be approved by Council. The updated Sustainable Community Strategy has clearer actions and targets.

▪ The Council's first Corporate Plan (including Best Value Performance Plan) was agreed by the Council on 26 May 2005 and published on 29 June 2005. The Corporate Plan for 2006/2009 was approved by the Council on 25 May 2006 and will be published by 30 June 2006.

The Corporate Plan incorporates the Council's Best Value Performance Plan and sets out its key objectives. It identifies the Council's seven agreed priorities and clearly sets out how these will be achieved. The Plan details what the Council has achieved during the previous year; how it has performed against its agreed performance targets; where planned outcomes have not been achieved, the plan explains why and what the authority intends to do about this.

▪ Individual Service Plans which seek to achieve the Council's contribution to the Community Strategy as well as the vision and priorities within the Council's Corporate Plan. They will be updated to meet new requirements of the Sustainable Community Strategy and the 2006/2009 Corporate Plan.

▪ The Councils Improvement Programme is largely based on the Improvement and Recovery Plan. Phase 1 was completed during 2005-06 with Phase 2 agreed by the ODPM during November 2005 and approved by Council on 15 December 2005.

▪ The latest progress assessment produced by the Audit Commission in March 2006, concluded that the Council was making good progress and indicated that:-

'Senior politicians and managers are providing good leadership both internally and externally; the Council is working with the Local Strategic Partnership to update the Community Strategy. The Council is making progress on new strategies and plans including community engagement, equality and information management.'

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The report singled out significant improvements within the planning service, revenues and benefits and e government and noted progress in regeneration projects and access to services.

- Quarterly Corporate Performance monitoring reports are made to the Executive, showing how the Council is performing and its progress in respect of achieving the outcomes set out in the Corporate Plan and the Improvement and Recovery Plan (2).

The facilitation of policy and decision making

- The Council's new Constitution, which was approved by the Council on 26 May 2005, provides a general framework for governance. The Constitution sets out:-

  - Decision making processes
  - Roles and responsibilities of Members
  - Roles of Statutory Officers
  - The responsibility for functions
  - The scheme of delegation
  - Council procedure rules including financing regulations and Contract Standing Orders
  - Members' Code of Conduct
  - Code of Conduct for Council Employees
  - Confidential reporting code (Speak Out/ Whistle Blowing Policy)
  - Member/Officer Protocol
  - Monitoring Officer Protocol
  - Corporate Commendation, Comments and Complaints Scheme
  - Local Code of Conduct for Members and Officers Dealing with Planning Matters
  - Local Code of Corporate Governance
  - Anti-fraud and Anti-corruption Policy and Strategy
  - Members' Allowances
  - Management Structure

- During 2005-06 the constitution has undergone a process of review with amendments approved by Council on 25 May 2006.

- The Executive meets monthly and has a Forward Plan identifying key decisions. The Executive has to make decisions which are in line with the Council's overall policies and budget; if the Executive wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council.

- The Overview and Scrutiny Committees monitor and scrutinise the decisions of the Executive. They can 'call in' a decision which has been made by the Executive but not yet implemented. This enables them to consider whether the decision is appropriate. They may recommend that the Executive reconsiders the decision and can insist the matter is referred to Council.

  The Overview and Scrutiny Committees have responsibility for commissioning and carrying out fundamental service reviews as part of the implementation of Best Value.

  They allow members of the public to have a greater say in Council matters by holding investigations into matters of local concern. These lead to reports and recommendations which advise the Executive and the Council as a whole on its policies, budget and service delivery.

Ensuring compliance with established policies, procedures, laws and regulations, including how risk is embedded, how leadership is given to the risk management process and how staff are trained to manage risk

- The Legal and Democratic Services Manager is the Monitoring Officer. The Monitoring Officer Protocol clearly describes the functions of the Monitoring Officer and how the Council expects him to discharge his functions. The Monitoring Officer provides support to the Standards Committee. He is responsible for reporting any actual or potential breaches of the law or maladministration to Full Council and/or the Executive and for ensuring that procedures for recording and reporting key decisions are operating effectively.

- The Scheme of Delegation and Contract Standing Orders have been updated as part of the recent review of the new Constitution.

- There is an Approved Anti-fraud and Anti-corruption Strategy.

- The Authority has an independent Internal Audit function which examines, evaluates and reports on the adequacy of internal control; internal audit assess exposure to risk and recommends, where appropriate, practical improvements to the control environment.

- The Audit Committee reports to Council. It is responsible for promoting and maintaining sound Corporate Governance, strong internal controls, probity and the effective use of resources. It has rights of access to all the information it considers necessary and can consult freely with Internal and External Auditors. The Committee is responsible for monitoring the performance of Internal and External Audit and receives reports on the conclusions of their audit activities.

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- The Risk Management Policy and Strategy has been updated during 2005-06 and changes approved at CMT on 22 March 2006. The strategy clearly sets out the Council's Risk Management Framework, roles and responsibilities, risk management arrangements, action plan and monitoring and reporting arrangements. The 2005/06 Action Plan was completed successfully.

- The inclusion of risk as a mandatory item within all reporting protocols is well established and has contributed to the decision making process.

- Members and Managers have been trained in risk management. This included the role of risk management; the Council's Risk Management Strategy and arrangements; the business risk assessment process; and the development of service risk profiles. A Risk Management Toolkit has been adopted and included in the new Risk Management Manual.

- The Council's Strategic Risk Profile has been reviewed and updated following a workshop held 25 October 2005. This has informed the 2006/07 budget setting round and current Corporate Planning cycle.

- Corporate Management Team receives monitoring reports and has allocated a lead Chief Officer responsibility for risk management to the Director of Resources.

- All key Managers have received project management training.

- In order to strengthen partnership working the Council has acquired a partnership toolkit with the assistance of the NECE which provides guidance on partnership formation, management and evaluation. This will assist the partnership review process programmed for 2006-07.

Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency, effectiveness.

- Improvement and Recovery Plan agreed, following the Council's Comprehensive Performance Assessment (CPA). Progress is monitored by an internal Project Management Board which meets monthly and by the ODPM Monitoring Board.

- Performance against Best Value Performance Indicators and locally agreed performance targets monitored and reported to Corporate Management Team and the Executive.

- Customer Excellence Strategy, incorporating customer service standards.

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- The Service Improvement Team was set up to review performance and assist with improvement in service areas. During 2005-06 the Council adopted a new Continual Process Improvement methodology to drive sustainable improvements which will be applied initially to three pilot projects prior to being rolled out across the organisation. The Audit Commission carried out a review progress of the CPI program during June 2006 on behalf of the Monitoring Board.

- A prioritisation system for all budgetary growth bids has now been agreed as part of the development of the Medium Term Financial Strategy.

- A comprehensive performance management system – 'Performance Plus' has been implemented throughout the Authority.

- Annual Efficiency Statements – backward look for 2005/06 produced and forward look for 2006/07 submitted showing how efficiency targets have been and will be achieved.

- The Council is committed to joint working and this is fundamental to the Council's priorities. The Council has worked with the County Durham e-Government Partnership – to improve service delivery. It has played a key role in the development of the Local Area Agreement signed in March 2006. The Council's neighbourhood management pilot has engaged other service providers such as the police in joint service delivery on a local level.

- The Council formally approved and adopted a revised Procurement Strategy on 27 April 2006 which is supported by the joint working arrangement with Derwentside District Council.

- The Resources Directorate has actively supported the work of the North East Centre of Excellence during 2005-06 with the objective of sharing best practice and the development of initiates to deliver long term efficiencies.

The financial management of the authority and the reporting of financial management

- The Director of Resources, as S151 Officer, is responsible for the proper administration of the Authority's financial affairs; setting and monitoring compliance with financial management standards; advising on the corporate financial position and on the key controls necessary to secure sound financial management; the Council's financial systems; reporting on the adequacy of reserves and the robustness of the budget estimates; providing financial information; preparing the revenue budget and capital programme; treasury management; and the medium term financial strategy.

- Monthly monitoring reports are provided for all budget holders and accounting staff meet regularly with budget holders to discuss variances and agree appropriate action; all budget holders have access to the Council's financial management system and have been trained in its use.

- Quarterly financial monitoring reports are submitted to the Executive and the Overview and Scrutiny Committees – covering both revenue budgets and the capital programme.

- Financial Regulations have been revised to clarify and improve the Authority's financial management arrangements.

- The Council now has a Medium Term Financial Strategy which underpins the Council's Corporate Plan and aims to provide the means by which we intend to achieve our vision and priorities and result in priority based budgeting.

  It is, however, based on assumptions that the work currently underway to ensure the revenue budget is sustainable over the medium term is completed by September 2006, to ensure that resources can be made available for key service priorities.

Performance management of the Authority and reporting of performance management

- Monthly performance monitoring reports on the Improvement and Recovery Plan progress and on performance targets are considered by the Executive. Chief Officers have individual responsibility for key themes within the Improvement and Recovery Plan and report on these to each meeting of the Executive.

- Corporate, computerised performance management system (Performance Plus) now fully implemented.

- Each member of staff and the majority of Members have Personal Development Plans (PDPs), agreed with his/her Line Manager, linking individual performance to Service Plans, which in turn links to the Community Strategy. Now that the Corporate Plan has been agreed, the service links to the Council's aims and priorities detailed in the Plan will form a key part of the PDP process.

- Within an extensive Organisation Development programme, the authority has introduced management competency frameworks which will be applied to all managers and supervisors with effect from April 2006.

- Following the recent Environmental Services Inspection the Council was pleased to note that the inspectors report concluded 'A culture of performance improvement is developing well within the service, performance is discussed regularly at team meetings'.

9.4 REVIEW OF EFFECTIVENESS

Chester-le-Street District Council has responsibility for conducting, at least annually, a review of the effectiveness of the systems of internal control. The review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the Senior Managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also comments made by the External Auditors and other Review Agencies and Inspectorates.

- Full Council reviewed the Constitution, including Contract Standing Orders and Financial Regulations in May 2005; considered the 2004/05 Audit and Inspection Letter in February 2005; considered and agreed the Council's Corporate Plan, incorporating its Statutory Best Value Performance Plan in May 2005 and reports from the Audit and Standards Committees throughout the year.

- Training on all aspects of the Constitution including financial regulations has been undertaken with officers and Members and this will be a regular feature within the future Corporate Training Program.

- The Executive received regular reports on performance throughout the year; reviewed the Constitution and the Corporate Plan prior to these being considered by Council.

- The Audit Committee monitored internal and external audit work, including the adequacy of internal controls.

- The Overview and Scrutiny Committees considered the changes to the Constitution prior to this being adopted by Full Council.

- The Improvement Board monitored progress in respect of the Improvement Plan following the CPA inspection.

- The Directors and Service Team Managers within the Authority are responsible for the design, implementation and maintenance of the systems under their control, and thereby they monitor the systems to determine their continued relevance and the effectiveness of controls. Directors and Service Team Managers were tasked with providing assurance statements on the operation of controls in their service areas.

- No s151 or Monitoring Officer reports were issued during 2005/06.

- There were no Ombudsman reports in 2005/06.

- On 15 March 2006 an inspection was conducted by Lord Colville of Culcross on behalf of the Office of the Surveillance Commissioners. The report was complimentary of the Councils knowledge of the necessary requirements; and through its recommendations has assisted greatly in the production of a relevant action plan.

- As part of its preparation for the transfer of its housing stock, the Council has agreed to set up a Shadow Board to develop the new organisation and facilitate the transfer. The Board will comprise of 15 members: five from the Council, five tenants and five independent members.

- Internal Audit complies with the ten standards of the CIPFA Code of Practice for Internal Audit.

- Planned activities on all core systems were achieved and a report was produced following each audit assignment, giving an opinion on the effectiveness of the control environment. During 2005/06 internal audit made 109 recommendations to address identified weaknesses in internal control and continued to follow up on 41 pending from the previous year. Although 4 of the recommendations were disputed by managers as uneconomical to implement, they relate to weaknesses of low risk to the Council and this situation was accepted by the Audit Committee. Action plans for the implementation of agreed actions were included in all audit reports and a process to monitor the delivery of the action plan is carried out on a quarterly basis by the Audit Committee.

- Internal Audit's Annual Report for 2005/06 which summarises the outcome of all audit assignments is scheduled to be reported to the July 2006 meeting of the Audit Committee.

- The Corporate Governance Steering group coordinated the completion of the Statement of Internal Control and production of the Managers Assurance Statements including the development of a resulting action plan for submission to the Audit Committee

- Contingent liability – the Council is currently subject to two claims for costs against the authority in respect of planning cases. Lawyers are engaged in the process and the potential liability is, at this stage, unknown.

9.5   SIGNIFICANT INTERNAL CONTROL ISSUES

Several control issues have been identified, these and the associated actions to address them are detailed below:-

Corporate Governance issues

Issue: Although the new Constitution includes a Local Code of Corporate Governance, the Authority is actively working to put in place fully developed mechanisms to monitor and review its Corporate Governance arrangements. Terms of reference of Corporate Governance Steering group have been agreed, and membership comprises the Council's Corporate Risk Officer, Head of Internal Audit, Assistant Chief Executive, Monitoring Officer and S151 Officer.

However, further detailed action planning and reporting are required.

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Action: An action plan for 2006-07 to be taken forward with quarterly reports to CMT.

Risk

Issue: Whilst Strategic Risk Management has robust mechanisms and the service planning process now includes risk assessment, Service Teams do not formally report progress with the management of service level and partnership risks during the year.

Action: The implementation of risk software during 2006-07 to facilitate regular risk monitoring and reporting.

The adoption of a partnership toolkit to assist in the identification and management of risk in partnership working.

The application of the new competency framework to ensure that all managers are adequately trained to apply risk management principles and methodologies.

Procurement

Issue: The Council has not as yet embedded the new Corporate Procurement Policy and Strategy. However, this was approved by Council on 20 April 2006.

A procurement action plan, with timescales and responsibilities, has been agreed; membership and terms of reference for both the Procurement Strategy Group and Strategy Network have been established.

Action: The Procurement Action Plan for 2006-07 will be implemented, and monitored through the Procurement Strategy Group.

Business continuity

Issue: Further work is required on the Authority's Business Continuity Strategy. Business and Service Continuity Plans should be embedded within the service planning and delivery processes and be subjected to regular testing.

Action: To work with the emergency planning unit to provide a training programme and to include within future service planning guidance for 2007-08.

Financial Systems

Issue: Following the Audit Commission's interim audit report for 2004/05 which identified that internal controls in respect of reconciliations, control accounts and suspense items needed to be improved, the Accountancy Team implemented a series of measures which has greatly improved the management of the Aggresso Financial System including clearer procedural documentation, defined user roles and responsibilities and greater priority to reconciliations between the main accounting system and feeder systems.

This has been underpinned by a revised structure across Accountancy and Financial Services which more clearly aligns resources with roles and responsibilities,

The latest Use of Resources assessment of our financial reporting and financial management arrangements produced a level 2 result and the Council is committed to achieve a minimum score of level 3 at the next assessment.

Actions: The Council's Governance Steering Group has developed an initial action plan to deliver the necessary improvements and this includes key actions which address:

- Improved budgetary control information and processes

- Embedding the revised financial planning and financial management processes

- Setting and monitoring performance against Key Financial Indicators

- Improving strategic asset management

- Developing corporate processes for assessing and improving value for money