

# STATEMENT OF INTERNAL CONTROL

## 1. Scope of Responsibility

The 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 its 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 the Council for the year ended 31<sup>st</sup> March 2006 and up to the date of approval of the annual report and accounts and, except for the details of significant internal control issues at section 5 accords with proper practice.

## 3. The internal control environment.

The system of internal control refers to the system by which the Council directs and controls its functions and relates to the community it serves. It is therefore the totality of the policies, management systems, procedures, and structures that together determine and control the way in which the Council manages its business, formulates its strategies and objectives and sets about delivering its services to meet those objectives.

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council to facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieve the authority's objectives.

The Council's system of internal control reflects its control environment which encompasses its organisational structure.

In particular, the system includes control activities, information and communication processes and processes for monitoring the continuing effectiveness of the system of internal control, specifically these are:-

- ◆ Councils Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable.
- ◆ The Corporate Plan, which focuses attention on corporate priorities, and in particular, the authorities "Vision" The Plan is not intended to be a comprehensive statement of everything the Council hopes to achieve over the next three years. It outlines the main issues affecting the district, describes the vision of the Council and sets out our main priorities for the next year and longer term. It sets out how these important priority issues will be addressed under the Council's aim to bring about real change through the corporate efforts of the Authority, working on its own and in partnership. The plan matches the Council's activities to the environment in which it operates and to the resources it expects to have available over the three years. It provides a focus and a framework for the planning and management of services and sets out the main aims and actions that need to be taken to achieve quality services.
- ◆ The Council's policy and decision making is facilitated by the establishment of a Cabinet system, supported by a scrutiny function and a standards committee. Meetings are open to the public except where personal or confidential matters are being disclosed. Senior members and officers can also make decisions under delegated powers. The Constitution contains details of decisions to be made by the Council, its committees and contains details of those powers delegated to members and officers.
- ◆ The Council has undertaken a thorough review of its land and property holdings and set out its plans for the future in "Achieving the Durham City Vision". These will be incorporated into the Council's Capital Strategy and Asset Management Plan.
- ◆ The Council has adopted a "Local Code of Corporate Governance" in accordance with the CIPFA/SOLACE Framework for Corporate Governance. The code contains appropriate reporting and monitoring procedures. A copy of the Code can be found on the Council's website at [www.durhamcity.gov.uk](http://www.durhamcity.gov.uk) A Standards Committee has also been established to ensure compliance with the code.
- ◆ The Council has an effective performance management framework that is driven by the Corporate Plan which focuses attention on corporate priorities. This is linked to section service plans, employees' performance development reviews (PDR) and service/ individual action plans. The Council's Scrutiny Committee monitors progress against targets and performance in priority areas affecting the main service areas, and considers and approves corrective action where necessary. Performance clinics have been established to monitor overall performance and to review key performance indicators on a quarterly basis with regard to service and national targets.
- ◆ The Chief Executive, Head of Paid Service chairs meetings of Chief Officers and Heads of Service on a weekly basis.
- ◆ The Council's Communication Strategy ensures information is shared with the public, partners, Members of the Council and its employees.
- ◆ In response to the Civil Contingencies Act 2004, the Council has undertaken a Business Impact Analysis to identify and prioritise the functions that it performs when delivering its business and services. This has allowed the Council to identify whether the absence of certain functions would threaten the survival of the business. From this the Council, with the support of the County Durham and Darlington Civil Contingencies Unit has developed a Business Continuity Plan outlining a number of strategy options aimed at reducing the likelihood of the Council experiencing a business interruption in the future. The Plan by identifying critical functions and the key resources required to carry out such functions ensures that the Council is now in a better position to effectively respond to a business interruption.

- ◆ The Council has established a number of multi-disciplinary working groups to support the strategic aims of the Council; including Corporate Strategy, Risk Management, Children and Families, Flourishing Communities, Customer Services, Community Services, Human Resources, Equalities, Internal Communication, Efficiency, Information Technology, Performance, Asset Management and Capital Works.
- ◆ The Council has designated the Director of Legal and Administration Services as Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.
- ◆ The financial management of the authority is conducted in accordance with the financial rules set out in the constitution, and in accordance with financial procedure rules and financial regulations and the 2005 SORP. The Council has designated the Director of Strategic Resources as Chief Finance Officer in accordance with section 151 of the Local Government Act 1972. The Council also has in place a 5 year financial strategy, updated annually, to support the medium term aims of the Corporate Plan. The financial position of the Council is supported by the preparation of regular financial reports which indicate actual expenditure against the forecasts as well as clearly defined capital expenditure guidelines.
- ◆ Through reviews by internal audit, external agencies, external audit, performance review and Best Value, the Council constantly seeks ways to ensure the economical, effective and efficient use of resources and for securing continuous improvement in the way in which its functions are exercised.
- ◆ The Council is in the process of developing robust systems for identifying and evaluating all significant risks. The Council approved a revised and updated Risk Management Strategy in October 2005 outlining the methodology used to set up its risk management framework. A cross Service Risk Management group has also been set up with a view to developing a comprehensive framework for risk management and to embed risk management across the authority. A strategic risk register has already been established. An operational risk register is also being developed and appropriate training identified and arranged for 2006/07
- ◆ The use of control risk self assessment forms to identify business risks will be further developed in 2006/07
- ◆ The Council maintains an Internal Audit section, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'
- ◆ The Council has also set up an Audit Overview Committee to independently monitor and review the work of internal audit, the council's risk management processes, the council's corporate governance arrangements, and the council's arrangements for seeking assurance and evidence in support of the statement of internal control
- ◆ The Council has an objective and professional relationship with their External Auditors and other statutory inspectors, as evidenced by the Annual Audit letter.
- ◆ Services are delivered by trained and experienced personnel. All posts have a detailed job description, person specification and list of competencies. Training needs are identified through personal development reviews and are corporately addressed.
- ◆ Details of key controls for all of the authority's systems have been distributed to Heads of Service. This will assist managers in determining the level of internal controls for systems under their responsibility that have not been subject to an internal audit review during the relevant period.

## **4. Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its system 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 executive managers within the authority 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.

The Council has established the following processes to achieve this aim

- ◆ Committee structure based on the Leader Cabinet model, which meets regularly to consider the plans and strategic direction of the Council. Ruling and opposition members are represented on each committee according to the rules laid down in the Council's agreed Constitution.
- ◆ The Director of Legal and Administration Services (the 'Monitoring Officer') has a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. The Constitution is regularly reviewed throughout the year, and amendments agreed by Council.
- ◆ The Council reviews its local Code of Corporate Governance on an annual basis and adopts an action plan to deal with any issues.
- ◆ Scrutiny Committees review the decision making process to consider whether a decision is appropriate. These committees scrutinised several issues during the year and made appropriate recommendations to Cabinet.
- ◆ The Standards Committee promotes and maintains high standards of conduct of Councillors and co-opted Members; assisting the Councillors and co-opted Members to observe the Members' Code of Conduct;
- ◆ The Audit Overview Committee reviews the adequacy of internal controls, monitors the performance of Internal Audit, agrees the internal and external audit plan, reviews risk management arrangements, oversees corporate governance requirements, and approves the statement of internal control.
- ◆ Internal Audit, are responsible for monitoring the quality and effectiveness of internal control. The audit plan is developed using a CIPFA risk model, and is approved by the Audit Overview Committee. The audit methodology is contained within the Audit manual which is largely based on the CIPFA model, and reflects the standards defined by the CIPFA code of practice, and meets the requirements of the Accounts and Audit Regulations 2003. Reports for each audit are submitted to relevant line managers and Heads of Service where appropriate. Reports include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the relevant departments system of internal control, together with recommendations for improvements that are contained within an action plan and require agreement or rejection by line managers. The process is subject to escalation where agreement cannot be reached, and includes quarterly reviews of recommendations to ensure that they are acted upon.
- ◆ The Internal Audit section are subject to regular inspection by the Council's external auditors who report annually to the Council. The external auditors place great reliance on the work carried out by the section.
- ◆ All financial services and systems are subject to regular inspection by the Council's external auditors who report annually to the Council.

- ◆ Performance clinics meet quarterly to review progress on PI's. Annually internal audit reviews key performance indicators in accordance with guidance provided by the audit commission to ensure the use of the correct definition and calculation before publication of the authority's annual performance plan.
- ◆ An annual review of the Councils Corporate Governance arrangements, together with the arrangements that the Council has in place to detect and deter fraud and corruption is carried out by Internal Audit.
- ◆ Heads of Service are expected to keep under continual review the internal control processes of systems under their responsibility, particularly where such systems have not been reviewed by Internal Audit in that year. This is to ensure continued adherence to 'key' internal controls identified and communicated to Heads of Service by Internal Audit.
- ◆ Business Continuity will be integrated into the culture of the Council by the use of an intensive training programme. The Plan will be reviewed on a quarterly basis.
- ◆ The risk management group annually review the risk management strategy, to ensure continued relevance to the Council. Following extensive training to be carried out in May/June 2006 the risk management group will:-
  - 1) review the Council's strategic and operational risk register and associated action plans
  - 2) ensure that appropriate management action is taken to minimise/eliminate/transfer/mitigate risk
  - 3) identify and assess emerging risks
  - 4) Consider and review the results of investigations into incidents occurring throughout the year.

The risk management group reports on a quarterly basis to Cabinet bringing their attention to significant risks.

- ◆ The Council annually reviews its Financial Procedure rules, Contract Procedure rules and Financial Regulations

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, the executive, the Audit Overview Committee, the Councils Scrutiny Committees and the risk management group, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## **5. Significant Internal Control Issues**

The Council in its 2004/05 Statement of Internal Control identified planned improvements. In 2005/06 considerable progress has been made.

The Council has: -

- ◆ Developed a Corporate Business/Service Planning framework.
- ◆ Prepared a Medium Term Financial Plan, aligned to and supporting the Corporate Plan.
- ◆ Invested in improvements to its sickness and absence management arrangements. Undertaken Member and Officer Development programmes.
- ◆ Reviewed its complaints procedures.

- ◆ Improved its consultation and community involvement processes.
- ◆ Implemented risk management arrangements at a strategic and corporate level.
- ◆ Improved project management arrangements.
- ◆ Further developed its arrangements to manage the Capital Programme.

The Council has begun several initiatives, which will continue to be developed in 2006/07. These include: -

- ◆ The further improvement of performance management systems.
- ◆ The development of option appraisal and market testing frameworks.
- ◆ The embedding of equality and diversity issues within the Council.
- ◆ The development of risk management arrangements at an operational level.
- ◆ The review of its arrangements governing partnerships.
- ◆ The review of procedure notes for business critical systems.
- ◆ The revision of the Council's Capital Strategy and Asset Management Plan.

Following a review of its restructure, the Council will also be establishing a Business Development Service which will further develop strategic and corporate initiatives to improve Council services.

In its 2003/05 and 2004/05 Statements of Internal Control, the Council identified two areas as requiring improvement.

- ◆ Bank Reconciliations
- ◆ Debtors

Substantial improvements have been made during 2005/06. The Audit Commission recognised that these weaknesses had been addressed in its 2004/05 Annual Audit and Inspection letter, and have reported that the 2005/06 bank reconciliation has already been successfully completed. New developments to the debtors system include the provision of better management information, the establishment of fully automated recovery processes and the decentralisation of the raising of accounts by budget managers.

The Council has also established improved arrangements to ensure its compliance with the requirements of the Statement of Internal Control as laid down in the Accounts and Audit Regulations 2003.

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Signature of the Leader of Durham City Council

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Date

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Signature of the Mayor of Durham City Council

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Date

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Signature of the Chief Executive

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Signature of the Director of Strategic Resources

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Date