

| Report of | Meeting | Date |
|----------------------------|-----------------|----------|
| Corporate Governance Group | Audit Committee | 11/07/05 |

STATEMENT ON INTERNAL CONTROL

PURPOSE OF REPORT

- 1 To summarise the statutory obligations now placed on the Council to produce a Statement on Internal Control (SIC) and publish it alongside its financial statements (from 2004/5 onwards).
- 2 To explain the structure and processes that have been put in place within the Council to enable the SIC to be produced.
- 3 To invite Members to review and approve the draft SIC (shown at the Appendix) which has been produced in accordance with CIPFA guidelines.
- 4 Thereafter the approved SIC will need to be formally signed-off by the Leader, Chief Executive and the statutory officers (Directors of Finance and Legal Services) before being submitted for external audit as part of the 2004/5 financial statements.

CORPORATE PRIORITIES

- 5 The corrective actions arising from the SIC process are vital to the achievement of corporate objectives and priorities.

RISK ISSUES

- 6 The issues raised and recommendations made in this report involve risk considerations in the following categories:

| | | | |
|------------|---|------------------|---|
| Strategy | ✓ | Information | ✓ |
| Reputation | ✓ | Regulatory/Legal | ✓ |
| Financial | ✓ | Operational | |
| People | ✓ | Other | |

- 7 The significant internal control issues emanating from the SIC process are in essence, key strategic business risks faced by the Council.

BACKGROUND

- 8 Regulation 4 of the Accounts and Audit Regulations (2003) requires every Council to conduct an annual, internal review of the effectiveness of its system of internal control and publish a **Statement on Internal Control (SIC)** each year alongside the authority's financial statements.

- 9 CIPFA guidance requires the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) to sign the SIC. They must therefore be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. The SIC is about **corporate controls** and is not confined to financial issues (hence the signatories required). The internal review should cover the Council's arrangements for:
- Establishing / monitoring the **achievement of its objectives**;
 - **Policy and decision making**;
 - Ensuring **compliance** with established policies, procedures, laws & regulations;
 - **Risk management**;
 - Ensuring the **economic, efficient & effective use of resources**;
 - **Financial management**;
 - **Performance management**.
- 10 The SIC is a corporate document and should therefore involve (in addition to the specified signatories) a variety of people charged with delivering governance, including:
- the monitoring officer in meeting his/her statutory responsibilities;
 - the responsible financial officer who is responsible for the accounting control systems and the preparation of the statement of accounts;
 - directors and managers assigned with the ownership of risks and the delivery of services;
 - members (e.g. through audit or scrutiny committees); and
 - others responsible for providing assurance (e.g. Internal & External Audit).

STEPS ALREADY TAKEN TO COMPILE THE SIC

- 11 A Corporate Governance Group (CGG) was formed in January to conduct a detailed review of the Council's system of internal control, comprising of:
- Director of Legal Services (Monitoring Officer)
 - Director of Finance (S151 Officer)
 - Head of Corporate & Policy Services
 - Audit & Risk Manager
- 12 The CGG undertook an extensive control self-assessment following CIPFA's detailed guidance and produced a draft SIC. The majority of the information contained in the draft SIC was derived from the CGG's own cumulative knowledge of the internal control system, but reference was made to independent information / assurance sources wherever possible; including:
- Comprehensive Performance Assessment (CPA);
 - Audit Commission facilitated corporate governance assessment;
 - Audit Commission Annual Audit Letter;
 - Internal corporate risk assessment (including emerging risks);
 - Results of service level business risk assessments;
 - Annual report of Internal Audit.
- 13 Management Team was subsequently invited to review and challenge the draft SIC at an away day at the end of May. The SIC shown at the Appendix therefore now represents a consensus officer view on the Council's current internal control environment (Section 3) and the Significant Internal Control Issues that need to be addressed (Section 5).
- 14 It is anticipated that the actions arising from the SIC exercise will feed into the Corporate Improvement Plan and decisions subsequently made as to responsibility, time scale and the resources needed.

- 15 The SIC has been compiled so as to incorporate the "Statement on the System of Internal Financial Control" previously required by the Code of Practice on Local Authority Accounting and is intended to be used in the authority's accounts in place of that Statement.

COMMENTS OF THE HEAD OF HUMAN RESOURCES

- 16 Not applicable to this report.

RECOMMENDATIONS

- 17 That Members review and approve the draft SIC (shown at the Appendix) which has been produced in accordance with CIPFA guidelines.
- 18 That the approved SIC be formally signed-off by the Leader, Chief Executive and the statutory officers (Directors of Finance and Legal Services) before being submitted for external audit as part of the 2004/5 financial statements.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 19 None.

| Background Papers | | | |
|------------------------------|-------------|--------------|----------------------------|
| Document | Date | File | Place of Inspection |
| Accounts & Audit Regulations | 2003 | FINANCE UNIT | KING ST. OFFICES |

| Report Author | Ext | Date | Doc ID |
|----------------------|------------|-------------|---------------|
| Garry Barclay | 5468 | 30/06/05 | AC SIC Report |

APPENDIX

CHORLEY BOROUGH COUNCIL

STATEMENT ON INTERNAL CONTROL

The Council's Responsibility

- 1.1 Chorley Borough 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.
- 1.2 In discharging this overall responsibility, the Council must also ensure that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

The Purpose of the Internal Control System

- 2.1 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 economically, efficiently and effectively.

The Council's Internal Control Environment

- 3.1 Chorley Borough Council is a large organisation, employing over 500 people and has a gross budget in excess of £40 million. Given its responsibility for the proper stewardship of public funds, the Council has striven to develop a sound internal control framework, a fact acknowledged by the Audit Commission who rate Chorley as a low-risk authority. In their most recent Annual Audit & Inspection Letter the Audit Commission stated that:

"Systems of internal control are generally sound and risk management continues to be embedded into the Council's planning and performance management arrangements".

"Internal Audit continues to provide an effective service. We are pleased to report that once again we are able to rely on the work undertaken by the section, and that the work undertaken provides an effective component of the Council's control environment and governance arrangements".

- 3.2 Moreover, the Audit Commission have recently facilitated a detailed review of the Council's corporate governance arrangements against the best practice framework established by CIPFA (Chartered Institute of Public Finance & Accountancy) and SOLACE (Society of Local Authority Chief Executives) and found that:

"A number of the CIPFA/SOLACE framework key elements are already in place and the Council is working to develop others, mainly through the Corporate Improvement Plan".

- 3.3 The key elements of the Council's control and governance arrangements are described in the paragraphs below: These arrangements have been in place for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

Establishing & Monitoring the Achievement of Objectives

- 3.4 The Council's priorities are derived from consultation on the Borough's first Community Plan and the approved Corporate Plan clearly sets out the Council's organisational objectives and priorities.
- 3.5 The Council has developed integrated business planning guidelines for individual services, which require links to be demonstrated with corporate priorities and statutory obligations. Business plan monitoring reports are produced on a quarterly basis. This is supported by a system of individual performance and development reviews.

Policy & Decision Making

- 3.6 The Council has adopted a 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 to local people.
- 3.7 Policy and decision-making is facilitated through the Executive Cabinet. Meetings are open to the public except where personal or confidential matters are being disclosed. In addition, individual executive members of the Council can make decisions under delegated authority.
- 3.8 The Council has an Overview and Scrutiny Committee and three subsidiary panels which can call for reconsideration of any executive decision which has been made by the Executive Cabinet, an individual executive member, a committee of the Executive Cabinet or an officer.
- 3.9 The Council publishes a Forward Plan which contains details of key decisions on executive matters to be made by the Executive Cabinet, a committee of the Executive Cabinet and officers. The Council has specified what is significant expenditure in terms of the definition of a key decision.
- 3.10 The Council has an approved Corporate Plan which sets out organisational objectives and priorities, derived from consultation on the Community Plan.

Compliance

- 3.11 The Council aims to ensure compliance with established policies, procedures, laws and regulations through a variety of mechanisms, including:
- Performance management system;
 - Internal Audit;
 - External Audit;
 - Monitoring Officer;
 - Section 151 Officer.
- 3.12 The Council has designated the Director of Legal Services as Monitoring Officer, who plays a key role in ensuring compliance. After consulting with the Chief Executive, the Monitoring Officer will report to the full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

Risk Management

- 3.13 The Council has introduced a robust structure and system for identifying and evaluating all significant business risks at both the strategic and operational / service levels. The key elements of which are:
- A member approved Risk Management Policy Statement;
 - Risk Management Board (chaired by Group Director) reporting to Management Team;
 - Executive Member for Risk Management;
 - An Integrated Strategic Risk Register / Corporate Improvement Plan;
 - Service level risk assessments built into the business planning process.
- 3.14 The Risk Management Board has clearly defined Terms of Reference to further develop, improve and embed the Council's risk management framework.

Economy, Efficiency & Effectiveness

- 3.15 The Council has constantly sought ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. These now include:
- Efficiency Steering Group;
 - E-Workforce Group;
 - Improve4U Steering Group and Focus Teams;
 - Corporate Procurement Working Group;
 - Overview & Scrutiny Committee & its three Panels;
 - External Audit & Inspection (inc. best value);
 - Internal Audit.
- 3.16 The Efficiency Steering Group has a particularly important role to play in securing the delivery of value for money services and been established to:
- Act as the co-ordinating body for the efficiency programme in support of the Council's corporate plans and priorities;
 - Champion efficiency both within the Council and externally with partners, suppliers and customers;
 - Meet government & Council reporting requirements regarding Annual Efficiency Statements;
 - Monitor and review the efficiency programme on an ongoing basis to ensure that it is meeting objectives;
 - Fully integrate efficiency into the 3-year business planning and budgeting cycle.

Financial Management

- 3.17 The Council has designated the Director of Finance as the officer responsible for the administration of its financial affairs under Section 151 of the Local Government Act 1972.
- 3.18 The financial management of the Council is conducted in accordance with the Financial Procedure Rules set out in the Council's Constitution. The Council has also adopted and implemented the relevant financial codes of practice covering such areas as treasury management and the Prudential Code.
- 3.19 The Council has in place a three-year Financial Strategy, updated annually, to support the medium-term aims of the Corporate Plan.

- 3.20 The Council maintains a sound Internal Audit function which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. Internal Audit report three times annually to the Audit Committee and are a prime source of assurance to the authority regarding its financial management (including the adequacy of its financial systems, budgetary control and the efficient and effective use of resources). Internal Audit also provides assurance in the areas of governance, risk management and compliance.
- 3.21 The Council has an objective and professional relationship with its external auditors and statutory inspectors.

Performance Management

- 3.22 The Council has a Performance Management Framework as set out in the document 'Our Corporate Planning and Performance Management Framework'. The system is driven by a Community Plan and the new Community Strategy which will replace is expected to be adopted by the Chorley Partnership (LSP) in September 2005. The Community Plan and the new Community Strategy articulate the shared vision of the Council and its Partners. Derived from this is a Corporate Plan which articulates our corporate priorities. This is cascaded through Unit Business Plans and individual performance and development reviews to ensure that everyone understands their individual and unit contribution to corporate goals.
- 3.23 Separate detailed guidance exists for Business Planning and the Performance Review process. Performance against targets in priority areas is monitored by Management Team, the Executive Cabinet and the Overview and Scrutiny Committee. Where necessary corrective action is identified and implemented.
- 3.24 The Council uses a bespoke performance management software system, Performance Plus. The system uses a traffic light system to monitor not only individual performance indicators, but also their combined effect on the achievement of corporate objectives. These reports are produced every two months to ensure that trends in performance can be identified and corrective action introduced if appropriate.

Reviewing the Effectiveness of the Internal Control System

- 4.1 The Council's extensive control framework has not emerged by accident. A variety of corporate review mechanisms are in place to ensure that its policies, procedures and processes are continuously evaluated and updated. The main review vehicles are listed below:

Corporate Governance Group

- 4.2 To oversee the production of the SIC itself, the Council has established a Corporate Governance Group with the following membership.
- Director of Finance (S.151 Officer);
 - Director of Legal Services (Monitoring Officer);
 - Head of Corporate & Policy Services;
 - Audit & Risk Manager.
- 4.3 Using the detailed guidance provided by CIPFA as the basis, the Group have produced a Schedule of Controls Assurance & Evidence; a process which also aims to identify any significant internal control or compliance issues within the authority. Although the cumulative knowledge and experience of the Group is the prime source of information, reference is made to independent sources of controls assurance wherever possible; including:

- Comprehensive Performance Assessment (CPA);
- Audit Commission facilitated corporate governance assessment;
- Audit Commission Annual Audit Letter;
- Audit Commission Best Value Reviews;
- Internal corporate risk assessment (including emerging risks);
- Results of service level business risk assessments;
- Annual Report of Internal Audit.

4.4 The Schedule of Controls Assurance and Evidence is reviewed and challenged by the Council's corporate Management Team who agree the form and content of the draft SIC itself, including the significant control issues to be disclosed. The draft SIC and supporting evidence is subsequently submitted to the Audit Committee for approval prior to formal sign-off and publication.

Risk Management Board

4.5 The corporate Risk Management Board meets on a quarterly basis to monitor developments in the risk management arena and to ensure that the Council's in-house arrangements continue to represent best practice. Its principal terms of reference are to:

- Oversee the regular review of strategic risks and ensure that any significant emerging risks are addressed via the Corporate Improvement Plan;
- Monitor the effectiveness of service level risk management within the Council's integrated business planning process;
- Analyse individual service level business risk assessments to identify any cross-departmental issues that need to be addressed corporately;
- Oversee the effective application of risk management within all significant partnership / partnering arrangements, contracts and projects;
- Oversee the execution of the Council's responsibilities in respect of civil resilience, business continuity planning and disaster recovery;
- Provide oversight of the arrangements for managing health and safety risks within the Council;
- Analyse accident, insurance claim and other incident data generated throughout the Council and co-ordinate action in respect of significant risk issues;
- Form risk management sub-groups to investigate and act upon specific issues which require resolution;
- Develop training on risk management for all levels of people connected to the Council, including officers and members;
- Disseminate information on risk management developments within the Council to the general public, members, Management Team, senior officers and employees;
- Advise managers of any changing requirements on the reporting or assessment of risk, arising from private or public sector best practice or any other relevant source.

4.6 The Risk Management Board regularly reports to Management Team on the management of risk throughout the Council.

Monitoring Officer

- 4.7 The Director of Legal Services (Monitoring Officer) has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council adopts the revised Constitution each year at its Annual Meeting.

Overview and Scrutiny Committee

- 4.8 The Council has an Overview and Scrutiny Committee and three subsidiary panels which can call for reconsideration of an executive decision which has been made by the Executive Cabinet, an individual executive member, a committee of the Executive Cabinet or an officer to enable them to consider whether the decision is appropriate.

Audit Committee

- 4.9 The Council has appointed an Audit Committee whose terms of reference extend to reviewing the adequacy of internal controls, monitoring the performance of internal audit and agreeing to the external audit plan.

Internal Audit

- 4.10 Internal Audit is responsible for monitoring the quality and effectiveness of the systems of internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant head of service. The report includes recommendations for improvements that are included within a Management Action Plan and require agreement or rejection by service managers. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon.
- 4.11 A significant element of the necessary controls assurance is therefore taken from the work of Internal Audit. Internal Audit provides independent and objective assurance across a wide range of the authority's activities and Internal Audit plans are now constructed around the key business risk issues facing the authority.
- 4.12 The Internal Audit Annual Report (for 2004/5) contains a statement / judgement on overall levels of internal control (a view based on the relative significance of the systems reviewed during the year, in the context of the totality of the control environment).
- 4.13 The Internal Audit Section is subject to regular inspection by the Council's external auditors, who place reliance on the work carried out by them.

External Audit

- 4.14 In accordance with the Audit Commission's Code of Audit Practice, the Council receives regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.
- 4.15 During 2004/5 the Council invited the Audit Commission to facilitate a review of its Corporate Governance arrangements. The actions arising from this review are incorporated within the Corporate Improvement Plan.

5. Significant Internal Control Issues

5.1 The significant internal control issues currently being addressed or still to be addressed by the Council are noted below. Few of the issues identified are completely new as they were also raised in the Council's Comprehensive Performance Assessment (CPA) and specific actions are already contained in the Corporate Improvement Plan (CIP) to address them. Therefore, where applicable, the "Planned Action" column below gives the appropriate references in the CIP, the latest version of which (version 6) is available on the Council's web site at www.chorley.gov.uk under "Your Council".

| No. | ISSUE | PLANNED ACTION |
|-----|--|---|
| | <i>Establishing & Monitoring the Achievement of Objectives</i> | |
| 1 | Further improving the engagement of communities and other stakeholders. | <ul style="list-style-type: none"> ▪ CIP (actions 4 & 6) |
| 2 | Clarifying the Council's ambition in terms of specific, measurable and sustainable outcomes. | <ul style="list-style-type: none"> ▪ CIP (actions 1 & 2) |
| 3 | Raising the profile of equality and diversity issues within the Council. | <ul style="list-style-type: none"> ▪ CIP (action 3) ▪ Embed the equality and diversity agenda across the organisation. |
| | <i>Policy & Decision Making</i> | |
| 4 | Enabling elected members to more effectively fulfil their roles and responsibilities within the modern local government environment. | <ul style="list-style-type: none"> ▪ CIP (actions 4b & 9) |
| | <i>Compliance</i> | |
| 5 | Establishing a member level mechanism to oversee the implementation of a best practice governance framework. | <ul style="list-style-type: none"> ▪ Extend the Audit Committee's remit to cover governance & risk issues. ▪ Adopt a local code of corporate governance consistent with the CIPFA/SOLACE framework. ▪ Implement best practice policies and procedures in whistle blowing, codes of conduct and anti-money laundering. ▪ Ensure that all changes to governance & constitutional documents are clearly communicated to staff. |
| 6 | Introducing formalised procedures to identify and comply with legislative change. | <ul style="list-style-type: none"> ▪ Introduce a centralised capture and monitoring mechanism in Legal Services. |
| 7 | Implementing appropriate project management disciplines across the Council to facilitate the achievement of corporate objectives. | <ul style="list-style-type: none"> ▪ Adopt a risk-based approach to the application of project management methodology. |
| | <i>Risk Management</i> | |
| 8 | Effectively managing the risks associated with partnerships and partnering arrangements. | <ul style="list-style-type: none"> ▪ Identify the Council's key partners & partnering arrangements & adopt a structured approach to partnership risk management. |

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| | <i>Economy, Efficiency & Effectiveness</i> | |
| 9 | Systematically implementing the Council's Procurement Strategy. | <ul style="list-style-type: none"> ▪ CIP (action 14) ▪ Implement the Procurement Strategy Action Plan. |
| 10 | Systematically capturing and utilising management information to facilitate the achievement of corporate objectives. | <ul style="list-style-type: none"> ▪ Progressively develop and integrate the management information system. |
| | <i>Performance Management</i> | |
| 11 | Embedding a more effective and consistent approach to performance management across the Council. | <ul style="list-style-type: none"> ▪ CIP (actions 8a & 15) |
| | | |

JG Wilson
Leader of the Council

JW Davies
Chief Executive

G Hall
Director of Finance (Section 151 Officer)

RA Lyon
Director of Legal Services (Monitoring Officer)