



Leicester
City Council

**RESOURCES and EQUAL OPPORTUNITIES
SCRUTINY COMMITTEE
CABINET**

**27 June, 2005
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STATEMENT ON INTERNAL CONTROL

REPORT OF THE CHIEF FINANCE OFFICER

1. PURPOSE OF THE REPORT.

- 1.1 The Council is required to include within its annual statement of accounts a separate Statement on Internal Control (SIC), the purpose of which is to set out, at a strategic level, the systems that are in place within the authority for ensuring that there are sound controls over key areas of management
- 1.2 Although the Statement on Internal Control appears within the statement of accounts, it is of sufficient importance for Members to consider it in its own right. This report sets out the key areas for members to consider, with reference to the statement.

2. SUMMARY OF THE REPORT.

- 2.1 The Statement on Internal Control is attached as an Appendix to this report. It defines the Internal Control environment, and shows how the control framework functions.
- 2.2 There are seven key elements to the internal control environment:
- Establishing and monitoring the achievement of the Council's objectives
 - The facilitation of policy and decision making
 - Ensuring compliance with established policies, procedures, laws and regulations
 - Ensuring the efficient effective and economic use of resources
 - Ensuring adequate arrangements for financial management and financial reporting
 - Ensuring adequate arrangements for performance management and reporting
 - Ensuring that the Council has an adequate risk management programme in place
- 2.2 The statement refers to other controls which inform the SIC, including the Risk Management Strategy and the Council's Local Code of Corporate Governance, both of which are reported separately to members.
- 2.3 The SIC concludes with a review of the effectiveness of the Internal Control system over the previous 12 months and concludes that the monitoring of Internal Control mechanisms has been satisfactory and that mechanisms exist for facilitating

continuous improvement.

3. **RECOMMENDATIONS**

3.1 The Cabinet is recommended to:

- (1) approve the statement on Internal Control
- (2) note that the Statement will be included in the Council's published annual statement of accounts, for the year ended 31st March 2005.

3.2 Reopps is recommended to note the report and make any comments it sees fit.

4. **FINANCIAL AND LEGAL IMPLICATIONS**

4.1 This report is concerned solely with financial issues.

5. **OTHER IMPLICATIONS**

<u>Other implications</u>	<u>Yes/No</u>	<u>Paragraph referred</u>
Equal Opportunities Policy	No	-
Sustainable and Environmental	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-

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MARK NOBLE
CHIEF FINANCE OFFICER

DECISION STATUS

Key Decision	No
Reason	
Appeared in Forward Plan	No
Executive or Council Decision	Executive (Cabinet)

STATEMENT ON INTERNAL CONTROL

1. SCOPE OF RESPONSIBILITY

Leicester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, 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 its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Leicester City 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 the risk of failure to achieve policies, aims and objectives, to a reasonable level - rather than to eliminate all risk. It can therefore provide only reasonable, but not absolute, assurance of effectiveness. The system of internal control is based on the ongoing process designed to identify and prioritise the risks to the achievement of Leicester City 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 Leicester City Council for the year ended 31 March 2005, and up to the date of approval of the accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

The framework for internal control is set out in the Council's Local Code of Corporate Governance and independent review of the effectiveness of internal control is carried out by the Council's Internal Audit section, in accordance with the Council's Internal Audit charter. The Council is committed to the development and maintenance of a system which:

- Demonstrates openness, accountability and integrity
- Monitors and reviews compliance with established policies, procedures, laws and regulations and effectiveness against agreed standards and targets
- Monitors and reviews the effectiveness of the operation of controls that have

been put in place

- Identifies, profiles, controls and monitors all significant strategic and operational risks
- Ensures that the risk management and control process is monitored for compliance.

Support for the management of risk is provided through the Risk Management Section of Financial Services and through Risk Management Officers located in each department, who provide advice, support and training as required in support of risk management activities.

The Council also has a Corporate Risk Management Group, whose remit includes:

- Review of the Council's Risk Management Strategy and evaluation of its effectiveness.
- Monitoring and reporting on the effectiveness of strategic risk management to Strategic Resources Group, Directors' Board and Members.
- Providing support to all departments to manage their strategic and operational risks.
- Facilitating strategic business risk assessment and the compilation of Corporate and Departmental Risk Registers.
- Monitoring and reviewing these Risk Registers.
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- Monitoring the implementation of departmental risk management plans.
- Co-ordinating and supporting corporate risk management activity.

The following table sets out the key elements of the Internal Control environment, and the Council's approach to each of these:

	Key element	Comments:
a)	Establishing and monitoring the achievement of the Council's objectives.	The Council's strategic objectives and key priorities are set out in the Corporate Plan 2003/2006. The plan was compiled following consultation and discussion with the Council's partners and stakeholders. These objectives and priorities are a significant driver of the corporate revenue budget strategy and individual service budget strategies. The service priorities are analysed into a more detailed series of actions in the plan and, for each action, there is a statement of how the action will be delivered and measured.
b)	The facilitation of policy and decision making	The Council conducts its business in accordance with its constitution, which was re-written and approved by the full Council in March 2002. The document is revised periodically to reflect national and local objectives. The Council operates a Cabinet style of decision-making with a number of Scrutiny committees convened to monitor the propriety and effectiveness of the process. The Council also reviews, from time to

	Key element	Comments:
		time, the administrative structure for the delivery of services to ensure that the most efficient and cost-effective arrangements are adopted. All Departments produce annually both departmental and service plans, which define the service activity and planned service developments for the forthcoming year. These plans dovetail with the revenue and capital budget strategies produced by each department.
c)	Ensuring compliance with established policies, procedures, laws and regulations	The Council's constitution clearly outlines the policies, procedures and regulations that must be adhered to by Officers and Members of the Council. The Council has three statutory officers (Head of Paid Service, Monitoring Officer, Responsible Finance Officer) who have specific duties to ensure that the proper controls are in place and that there is compliance with the rules and regulations that exist.
d)	Ensuring the efficient, effective and economic use of resources (including securing continuous improvement)	The Council's financial management framework requires Directors and Members to consider the financial performance of all services and to deliver efficiencies wherever possible in order to release finance for new initiatives or growth areas. The Council has also instigated, in addition to "Best Value" reviews, a number of functional reviews intended to identify more efficient and cost-effective ways of working. Current reviews include procurement, property and other support services.
e)	Ensuring adequate arrangements for Financial Management and Financial reporting	The Council has developed a framework for budgetary control that includes regular reporting to Departmental Management teams, Corporate Directors' Board and Members. The forecast outturn for service budgets is a key feature of the reports, enabling officers and members to understand individual service cost pressures and where necessary to take appropriate steps to ameliorate the position.

	Key element	Comments:
f)	Ensuring adequate arrangements for Performance Management and reporting	The Council has established performance management arrangements that ensure the regular monitoring of performance. This includes reports to Corporate Directors' Board and Members. Separate reports focus on the Key Best Value Performance indicators, other internal performance indicators, and the effectiveness of the responses to internal audit recommendations.
g)	Ensuring that the Council has an adequate risk management programme in place and is taking steps to embed this into the mainstream activities of the Authority	The Council has adopted a Risk Management Strategy, which sets out the respective roles and responsibilities of members and officers, as well as providing a framework upon which effective management of risk is being delivered. The Risk Management Strategy is reviewed regularly; the last such review was in June 2004.

4. REVIEW OF EFFECTIVENESS

The Council's responsibilities for reviewing the effectiveness of the system of internal control rest in its overall responsibility for the constitution, which includes the scrutiny and holding to account of the Cabinet as executive.

The Cabinet has within its terms of reference

- Oversight of Corporate Governance arrangements
- Drawing up regulations and securing their adherence to ensure resources are maintained and safeguarded
- Ensuring the Council has effective arrangements for the management of its financial affairs
- Management of the Council's corporate finances and holding to account those responsible for the use of resources allocated to them
- Review, consideration and recommendation to full Council relating to Finance Procedure Rules.

Leicester City Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of 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's Resources & Equal Opportunities Scrutiny Committee has responsibility for the oversight of Corporate Governance arrangements, which is the subject of an annual report from the Head of Legal Services; and for review of the

Council's performance as disclosed by the Audit Commission. A report is also presented annually to this Scrutiny Committee giving the findings of Internal Audit on the effectiveness of the internal control arrangements, with recommendations for any necessary improvements. The most recent report, to be presented to the Committee in September 2005, concludes that an effective system of internal control has been maintained during the previous year. This is supplemented by an annual summary, addressed to the Chief Finance Officer, of findings from Internal Audit work for the financial year in question. Separate reports set out the progress on any extant internal and external audit recommendations, including any recommendations for improvements in internal control.

We are satisfied that, through the framework set out above, arrangements for monitoring internal control are satisfactory and ensure that a mechanism for continuous improvement is in place.

Other review and assurance mechanisms

The Council has adopted a Local Code of Corporate Governance under which officers are charged with providing assurance on the operation and effectiveness of key policies and procedures.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

Risk profiling workshops to identify key risks to the delivery of the Council's Corporate Plan 2003/2006 were conducted during the year and the results reported to the Corporate Directors' Board in May 2005. This report is effectively the Corporate Risk Register and supplements departmental registers that have been developed.

Signed: (Chief Executive) (Date)

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Signed: (Leader) (Date)

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Signed: (Chief Finance Officer) (Date)

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