

WINCHESTER CITY COUNCIL

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

THE POSITION AS AT 31 MARCH 2006 INCLUDING PLANS FOR THE FINANCIAL YEAR 2006/07

1. Scope of responsibility

As Leader and Chief Executive of Winchester City Council, we have responsibility for ensuring that its business is conducted in accordance with the law and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Winchester City 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, we are 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 a process designed to identify and prioritise the risks to the achievement of Council 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.

3. The Internal Control Framework

The system of internal financial control is based on a framework of regular management information, financial procedure rules, administrative procedures, management supervision and a system of delegation and accountability. In particular, the system includes:

- Comprehensive budgeting systems
- Regular reviews of periodic and annual financial reports that indicate performance against forecasts
- Setting targets to measure financial and other performance
- Comprehensive financial procedure rules
- Formal project management disciplines, where appropriate

The Council has a nominated Section 151 Officer, namely the Director of Finance. The principal responsibilities include:

- The administration of the financial affairs of the Council
- Reviewing and overseeing the operation and monitoring of the CIPFA / SOLACE Framework for *Corporate Governance in Local Government: A keystone for Community Governance*
- The provision of advice on financial probity and budget and policy framework issues
- Compliance with the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit Regulations Act 2006.

Systems are in place to ensure effective performance management and an annual Best Value Performance Plan is produced detailing our performance against established targets.

The Council has in place a comprehensive risk management framework and process throughout the Council, reaching every level of the business. We are committed to the improvement of risk management across every aspect of the business and Corporate Management Team encourages both the adoption of best practice and proactive management of risks. The Director of Finance acts as Chief Risk Officer and leads a small team, including our Risk and Insurance Officer, responsible for corporate risk management processes and the promotion of best practice throughout the Council.

A culture has been developed to support the effective management of risk while encouraging the risk-taking necessary to deliver the outcomes needed by our customers and partners. We are committed to identifying and managing all risks which have an impact on our stakeholders and to ensuring that our actions to manage risk are transparent.

4. Review of Effectiveness of Control

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The Council has adopted a cabinet structure to oversee the executive management decisions. Corporate Management Team (the executive management) is responsible for advising Cabinet and Council on the Council's strategic plans and ensuring that the control framework is in place for managing and directing the strategic plan.

Council has appointed a Principal Scrutiny Committee that is responsible for co-ordinating overview and scrutiny work. This Committee undertakes the role of Audit Committee and has met regularly throughout the year and received formal reports from the Audit Manager. It has also had reports from the Monitoring Officer on improvements to corporate governance arrangements in the Constitution. Four Scrutiny Panels reviewed performance management and policy review across the Council's activities within a work programme co-ordinated by Principal Scrutiny Committee. These Panels were aligned to Portfolio Holders' areas of responsibility covering broader themes.

The Council has adopted a structured approach to risk identification to cover strategic, business capability, financial and corporate governance risks. As part of our annual business planning process, the strategic risks which face the business are routinely reviewed. The risks are updated by considering their potential impact and their likelihood.

As Leader and Chief Executive, we also have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the work of Internal Audit and the executive managers within the Council, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the External Auditor in the Annual Audit Letter and other reports.

The process we have applied and will be applying in maintaining and reviewing the effectiveness of the system of control includes contributions by:

Corporate Management Team, which will be:

- Conducting a monthly business health check and quarterly monitoring
- Monitoring progress with the more significant internal audit recommendations
- Discussing risk management actions reported in the corporate risk register

The Principal Scrutiny Committee, which:

- Receives a comprehensive internal audit progress report incorporating situation reports and the executive summaries of all internal audit reports
- Considers the Annual Audit Letter from External Audit

- Receives quarterly monitoring reports

Internal Audit, which:

- Compiles an internal audit programme based around management's perception of the key risks, gleaned from the business plan, risk registers and discussions with councillors, directors and key senior managers
- Reports to Corporate Management Team and Principal Scrutiny Committee on progress with the audit programme, the outcome of individual audits, including audit findings, the risks to which they give rise, recommendations to mitigate the risks, management's responses, implementation targets and progress with implementing recommendations
- Provides a quarterly digest of findings and recommendations
- Tracks recommendations to implementation or until superseded
- Gives an annual opinion on the internal control environment and issues that should be included in this statement

External Audit, which:

- Provides an Annual Audit and Inspection Letter setting out the findings arising from its review of the annual accounts and reports on other assignments that may have been conducted from time to time

Strategic Risk Group, which:

- Will establish a monitoring regime for the Council and develop a corporate approach to managing risk including overseeing the development of the strategic risk register

Monitoring Officer, who:

- Reviews this Statement

As required by the Accounts and Audit (Amendment) (England) Regulations 2006, Corporate Management Team has reviewed the effectiveness of Internal Audit, in light of feedback following each audit and the conclusions of a review by external audit, and has concluded that Internal Audit is an effective part of the Council's internal control environment.

Actions taken so far include:

- A management review of the Council's Constitution to ensure that it is compliant with current law and central Government guidelines as well as to update and improve the Council's procedures
- A comprehensive review by internal and external audit of the Council's corporate governance arrangements and performance indicator results. The scored judgment for Corporate Governance undertaken in October 2003 for input into the Comprehensive Performance Assessment was 19 out of a possible 20 (risk management being responsible for us not achieving the full score)
- Probity audits of the Council's financial management and accounting systems and reporting arrangements
- CPA Use of Resources Assessment March 2006 where the Council was judged overall as 2: Adequate

5. Significant Internal Control Issues

There are no significant internal control issues. Set out below are the matters identified that, although they do not represent a significant control risk or control weakness, when implemented will improve the overall efficiency and standard of governance.

1. Performance management is an area recognised by senior management as requiring improvement. There is also an outstanding action from the last review of this area in that the Terms of Reference for the Performance Management Group should be reviewed and updated accordingly in order to help the Group establish itself to improve the performance management process.
2. There is an outstanding action to establish a corporate complaints procedure.
3. The Risk Management Framework is still relatively new. Internal Audit has just conducted an in depth review of risk management and issued a report containing recommendations for further improving the effective management and application of risk management. The Council needs to take note of these points and ensure that risk management becomes fully embedded throughout the organisation.
4. The Council is in the process of establishing effective business continuity planning across the authority to improve the control environment for service delivery which was identified as an action last year. The Council needs to ensure the plans are finalised and become fully embedded throughout the organisation.
5. There is an outstanding action to ensure that there is an effective programme management board in place for the overall control of the Council's entire project programme.
6. The implementation of agreed Internal Audit recommendations need to be closely monitored by senior management to ensure these are fully addressed by the agreed action date.
7. Senior Management will review the actions identified in the CPA Use of Resources Assessment Results which are required to improve the scores for those Key Lines of Enquiry where the result = 1 – below minimum requirements / inadequate performance or = 2 – only at minimum requirements / adequate performance.

George Beckett

Leader of the Council

Date:

Simon Eden

Chief Executive

Date:

June 2006