

# Statement on Internal Control

## **1. SCOPE OF RESPONSIBILITY**

Rossendale 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.

In discharging this overall responsibility, the Council is responsible for ensuring 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.

## **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 Rossendale Borough Council for the year ended 31<sup>st</sup> March, 2006 and up to the date of approval of the annual report and accounts. Its effectiveness is considered in section 4 below.

## **3. THE INTERNAL CONTROL ENVIRONMENT**

The key elements of the Council's internal control environment include:

- The Constitution, which establishes arrangements for policy setting and decision making and the delegation of powers to members and officers;
- An established business planning process, which sets clear objectives and targets in light of the Council's policy priorities and financial resources;
- A performance management system of regular monitoring and reporting of the Council's performance against its plans;
- A risk management framework, which ensures that risks to the Council's objectives are identified and appropriately managed;
- A Medium Term Financial Plan, budget setting and budgetary management systems which aim to economically, effectively and efficiently use resources in line with corporate priorities and regularly report financial performance to officers and members;
- Financial Regulations and a clear supporting framework of financial procedures;
- A structure of centrally monitored devolved financial management that promotes management of the Council's finances at the appropriate organisational level;
- Comprehensive codes of conduct for members and officers that set out clear expectations for standards of behaviour together with job descriptions that make clear senior officer duties in matters of financial, performance and risk management;
- Well publicised and effective arrangements for dealing with complaints and whistle-blowing, and for combating fraud and corruption;
- A partnership with Lancashire County Council for the management of the internal audit service that works with officers to assess and develop the control environment and which supports management's assessment of compliance with established policies, procedures, laws and regulations.
- The introduction of annual quality assurance statements by all Heads of Service which both acknowledge officer responsibilities in matters of internal control and make an annual evaluation of the adequacy of the internal controls within the service area.

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## **4. REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by, amongst other things, 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 in their annual audit letter and other reports.

The Council's recent review of the effectiveness of the system of internal control, by Internal Audit, concluded that: "the level of internal control in the majority of areas reviewed needs to be further improved" this does demonstrate progress by the Council over the last years report which concluded "overall there is an inadequate level of control in the majority of areas reviewed". In particular, the main area of weakness during 05/06 revolved around internal audits opinion on "an inadequate separation of duties". This was an area of concern last year, however, unlike last year, issues surrounding the standard of: documentation, senior management and internal audit have not been specific areas for concern. In addition Internal Audit acknowledge that their opinion "does not reflect the level of progress made by the Council in the last year and the steps the Council has already taken to control its risks, which will take more time to fully implement and embed."

In particular the area of the separation of duties will always be a challenge for any organisation the size of Rossendale Borough Council. Indeed the challenge for this Council will increase as staff numbers reduce due to amongst other things an increase in the scale of service delivery through partnership arrangements as the Council pursues the capacity building model as a means of increasing service efficiency and performance. The issue of the separation of duties is therefore something on which the Council and its officers make appropriate and robust assessments of risk.

The Audit Commission has recent published 2 report - the Progress Assessment Report (February 2006) and the Use of Resources (March 2006). The former concludes that the Council "is progressing well..." the latter evaluates how well the Council manages and uses its resources and concludes that the Council "has adequate arrangements for its use of resources"

The Council and its officers welcome both the annual review and detailed internal audit reports on service areas which make specific recommendations and those reports and assessments made by the Audit Commission. The Council continues to develop arrangements to address areas of weakness and ensure continuous improvement of the system is in place. One development that we publicly stated last year was to put in place a set of assurance statements from Heads of Service in order for them to evaluate their own departments systems of internal control in place during the financial year.

Adequacy of internal control should also be seen in the context of an improving financial position that has been gained over the last 12 months reflected in the Consolidated Balance Sheet, as at 31<sup>st</sup> March 2006. The Council ends the year in a much stronger and healthier financial position. The Council has more than exceed its general reserves target of £500,000 by delivering £xxxxxx; in addition it has continued to create new earmarked reserves and maintained a strong cash flow.

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## 5. SIGNIFICANT INTERNAL CONTROL ISSUES

On the basis of the review of the sources of assurance set out in this statement, Rossendale Borough Council continues to develop and embed satisfactory systems of internal control which facilitate the effective exercise of its functions and which includes arrangements for the management of risk.

The system of internal control will be subject to continuous review to ensure that it continues to meet the needs of the Council and to operate effectively. We have identified a number of areas we wish to develop further, including the further embedding of the following management disciplines: finance, performance and risk. The significant internal control issues currently being addressed or still to be addressed by the Council are noted below. Some of the issues identified were raised in the Council's Comprehensive Performance Assessment (CPA) and specific actions are already contained in the Best Value Performance Plan & 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 is available on the Council's web site at [www.rossendale.gov.uk](http://www.rossendale.gov.uk) under C of the A to Z section.

No.	Issues	Planned Action
	<b>Corporate Improvement Plan</b>	
1	Improve awareness and understanding of the role of effective elected Members with the skills to deliver the Council's agenda and community leadership role	CIP 2, 31
2	Improve levels of employee performance, knowledge of improvement agenda, clear understanding of roles and responsibilities, modernise conditions of service and create a diverse workforce	CIP 3, 7, 12, 33, 40
3	Core skills for Rossendale's capacity building model delivering improved performance and customer focus	CIP 8
4	Establish an ICT platform, which enables the business processes and efficiency	CIP 14
5	To continue to build a financial base upon which the Council can deliver its priorities and to ensure that Council buildings are fit for purpose for both staff and customers. Strengthen the approach to use of resources and probity issues.	CIP 16, 32,
6	Strategic procurement and probity matters in the Council's management of major projects	CIP 15, 21, 22, 35, 39, 41
7	Community engagement and social inclusion, effective internal communications and improved corporate memory	CIP 23,24
8	CPA Assessment of Fair raising the profile and reputation of the Borough and its ability to influence stakeholders in the delivery of the overall vision for the borough.	CIP 28

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No.	Issues	Planned Action
	<b>Internal Audit Reporting</b>	
9	Officer and Member (those charged with Governance) response to individual internal audit reports and the annual review.	1 – Internal audit report action plans agreed by Heads of Service and Managers 2 – Audit committee meetings minutes and approvals 3 – Executive Director for Resources report and response to annual review to the Audit Committee (July 2005)
	<b>Audit Commission Report – Financial Management (May 2005)</b>	
10	The key finding being in relation to issues of: <ul style="list-style-type: none"> <li>- linkages to performance/risk management and external funding</li> <li>- competencies and systems</li> </ul>	See action plan incorporated into report and the key recommendations (R8,13,14,&21)  (See also actions resulting from The Performance Management Update)
	<b>Audit Commission Report – Use of Resources (March 2006)</b>	
11	The key lines of enquiry (KLOE) identify 5 areas for review: <ul style="list-style-type: none"> <li>- Financial reporting</li> <li>- Financial management</li> <li>- Financial standing</li> <li>- Internal control</li> <li>- Value for money</li> </ul>	Use the 2006 KLOE to: <ul style="list-style-type: none"> <li>- strengthen areas scoring 2 to 2 – 3</li> <li>- strengthen areas scoring 1 to 2</li> </ul> in order to consolidate the overall score of 2

Duncan Ruddick

Carolyn Wilkins

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Leader of the Council

Chief Executive