

STATEMENT ON INTERNAL CONTROL AND CORPORATE GOVERNANCE 2004/05

1. SCOPE OF RESPONSIBILITY

Lancaster City 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, Lancaster 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. To this end the Council has adopted a Constitution and Code of Corporate Governance which is consistent with CIPFA/SOLACE¹ framework – *Corporate Governance in Local Government: A Keystone for Community Governance*. A full copy of the [Council's Constitution](#) is available on the Council's website.

Regulation 4 of the Accounts and Audit Regulations (2003) requires audited bodies² to conduct a review at least once a year of the effectiveness of its internal control and risk management systems and to publish a statement on internal control (SIC) each year with the financial statements.

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.

Effective systems of internal control are based on an ongoing risk management process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

3. THE INTERNAL CONTROL ENVIRONMENT

The system of internal control has been in place at Lancaster City Council for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts and, except for the details of significant control issues set out in section 5, accords with proper practice.

The following sets out the key elements of the Council's internal control environment:

- The Council has adopted a constitution (recently revised), which sets out how we operate, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.

¹ The "Chartered Institute of Public Finance & Accountancy" and the "Society of Local Authority Chief Executives."

² Those bodies whose accounts are audited in accordance with Section 2 of the Audit Commission Act 1988

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- The facilitation of policy and decision making, in line with the Council's overall budget and policy framework, is established through the Council's Cabinet, with any key decisions (as defined in the Constitution) outside of this framework being referred to the Council as a whole. The Council publishes a Forward Plan containing details of key decisions made on behalf of the Council by Cabinet and by senior officers under their delegated powers.
- The adopted Code of Corporate Governance sets out how the values of openness, inclusivity, integrity and accountability are applied to the Council's activities, in line with the principles and requirements of the CIPFA/SOLACE³ framework – *Corporate Governance in Local Government: A Keystone for Community Governance*.
- A [Risk Management Policy](#) and [Strategy](#), in place since December 2003, sets out the framework for managing risk throughout the Council. Senior officers of the Council have primary responsibility to effectively manage strategic and operational business risks relating to their Service. The process of identifying, assessing and managing these risks will be underpinned by the Council's Risk Register which is currently under development.
- The Council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which we exercise our functions through reviews carried out by Cabinet's Star Chamber, our Internal Audit and Best Value review teams and those conducted by our external auditors and other external agencies.
- The Corporate Director (Central Services) is the Council's designated Monitoring Officer with responsibility for promoting and maintaining high standards of financial conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports The Standards Committee in their function of promoting and maintaining high standards of conduct of Councillors and co-opted Members.
- The Council's commitment to high standards of conduct and integrity are supported by our established codes of conduct for employees and elected Members and probity is maintained through our Anti-Fraud and Corruption [Policy](#) and [Strategy](#) and the [Whistleblowing Policy](#).
- The financial management of the Council is conducted in accordance with mandatory rules set out in the Financial Regulations and Procedures within the Constitution. The Council also has in place a three-year Medium Term Financial Strategy to support the key priorities and objectives set out in the Council's Corporate Plan, and the Head of Financial Services has statutory duties for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972.
- Internal Audit operates to the standards set out in the '*CIPFA Code of Practice for Internal Audit in Local Government 2003*' and the Council has established an objective and professional relationship with our external auditors and other statutory inspectors.

³ The "Chartered Institute of Public Finance & Accountancy" and the "Society of Local Authority Chief Executives."

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- The Council's performance management framework is driven by our Corporate Plan which focuses attention on our corporate priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans. Cabinet's Performance Review Committee monitors progress against performance targets in the Corporate Plan and in other priority areas of Council activity, approving corrective action where necessary and the Budget and Performance Panel of the Overview and Scrutiny Committee provides a policy review and scrutiny function of the Council's overall and service specific budgetary and performance management.
- The Council sets out its approach to partnering in service delivery and in construction projects through the introduction of the [Framework for Partnership Working](#) and the [Procurement through Partnering Guidelines](#) published in November 2004. These documents set out clear guidance on how the Council will meet the strategic objective of delivering better services to citizens through the creation of sustainable partnerships between the Council and suppliers in the public, private and voluntary sectors and the carrying out of major projects, including construction.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the systems of internal control. The review of the effectiveness of internal control is informed by the work of internal auditors and senior managers of the Council who have responsibility for the development and maintenance of the systems of internal control, and also by comments made by the Council's external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

The following are the main processes applied in maintaining and reviewing the effectiveness of the systems of internal control and governance:

- The Audit Committee and the Corporate Director (Central Services), in his role as the Council's Monitoring Officer, have a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. A function of full Council is to adopt and change the Constitution following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the Council's budget and performance at both a strategic and service level
- The Audit Committee has responsibility for reviewing the local Code of Corporate Governance, including risk management and internal control. The Council's assurance statement on corporate governance is assimilated within this Statement of Internal Control and Corporate Governance
- The Audit Committee also reviews the adequacy of internal controls and risk management arrangements, monitoring the performance of Internal Audit and agreeing the external audit plan
- Internal Audit is responsible for providing assurance on the effectiveness of the Council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The Council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and

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giving an opinion on the effectiveness of the Council's systems of internal control

- The Council's performance framework continues to evolve with work continuing to integrate the Council's strategic arrangements for the performance and risk management functions and the business planning process. During 2004/05 the Council has been working closely with consultants to develop an integrated performance management system which will provide improved and more efficient production of performance information. In addition, an in-house risk management database is being developed to identify, assess and monitor risks at both a corporate and service level
- [The Comprehensive Performance Assessment](#) carried out by the Audit Commission assessed the Council as a 'Fair' performing authority, placing it in the middle of a range of possible scores from Poor to Excellent. The report identified areas for improvement, particularly around prioritisation and performance management. Ways to address these as well as other priority action areas are incorporated within our Corporate Improvement Plan (BVPP)
- In December 2004, the Audit Commission, in their [Annual Audit Letter](#), acknowledged that the Council had developed an ambitious improvement plan which demonstrated a clear focus and commitment to achieving better outcomes for the community and that we had *'achieved a lot in a relatively short space of time'*
- During 2004/05 the Council also invited the Audit Commission to undertake a detailed review and report upon the Council's performance management arrangements. Their report recognises that the Council has made good progress in developing its performance management framework and highlights other areas, particularly risk management and business planning, in need of further improvement. An action plan is to be drawn up to address these issues once the Audit Commission's report has been finalised
- The Council reviewed and revised its Financial Regulations and Contract Procedure Rules in 2004/05; has continued to develop its role as a community leader and improved its arrangements for consulting with the public and working in partnership with public, private and voluntary sector organisations
- The Council worked with its partners within the Local Strategic Partnership to develop the [Community Strategy](#) which, following extensive consultation, sets out 'A vision for the year 2020' and the Council has developed clear links within its Corporate Plan relating to the aims of the Community Strategy.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

Work carried out by both our external and internal auditors has indicated that effective internal financial controls exist within the Council's main financial systems to ensure the accuracy and integrity of the information they provide and no significant control weaknesses have been brought to our attention.

From assurances provided from the review of the effectiveness of our systems of internal control and the corporate governance framework, it is our opinion that they accord with proper practice and are working effectively.

Whilst the Council has received praise from the Audit Commission and other external inspectors and peers we recognise that more needs to be done in order to address any significant issues affecting the Council and to ensure continuous improvement of our already considerable governance controls, and to that end we will:

- **Formulate and specify corporate objectives, priorities and policies** by maintaining the validity of strategic plans through community input and clarifying plans for delivery of the Community Strategy between partners to ensure that throughout the Council there is a clear understanding of our priorities
- **Translate corporate priorities into service objectives, action plans and resource needs** by making further improvements to the business planning process, including the evaluation of service performance linked to plans; through more robust resource planning to deliver corporate objectives/priorities and by embedding a corporate approach to managing risks and maximising opportunities in the decision making process
- **Review progress, outcomes and performance against objectives** through greater clarity of the Council's performance management framework and a more consistent and co-ordinated approach to capturing and reviewing performance information
- **Resource and implement action plans** through the development of our workforce planning arrangements to ensure that our staff have the necessary skills and training to deliver services and by improving our 'value for money' arrangements in line with the requirements of the Government's efficiency review
- **Formalise the arrangements for the compilation of the Statement of Internal Control and Corporate Governance (SIC&CG)** through the establishment of a management group responsible for the SIC&CG and by defining responsibilities for identifying and evaluating assurances and supporting evidence
- **Conduct a review of our probity arrangements** through a formal review programme of the Council's Whistleblowing and Counter Fraud and Corruption policies and Codes of Conduct
- **Review our Business continuity and emergency planning (Civil Resilience) arrangements** by assessing the impact of the Civil Contingencies Act on current arrangements and formalising actions needed to ensure compliance by the time the Act comes into force in November 2005
- **Develop our Best Value Procurement arrangements** by reviewing our procurement practices in line with national guidelines and by revising our procurement strategy aimed at establishing a more holistic and corporate approach to procurement

I Barker
Leader of the Council

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Chief Executive

R Muckle
Corporate Director Central Services
(Monitoring Officer)

N Muschamp
Head of Financial Services
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