

STATEMENT ON INTERNAL CONTROL AND CORPORATE GOVERNANCE 2006/07

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 2007 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, 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

- 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 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 is underpinned by the ongoing development of the Council's Risk Registers, the establishment of a corporate approach to managing significant projects and the supervisory activities of the Risk Management Group.
- The Council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by Cabinet's Star Chamber, the Overview and Scrutiny function, Internal Audit and those conducted by our external auditors and other external agencies.
- During 2006/07 the Head of Legal and Human Resources Services was the Council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of 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 its 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 is 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 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.

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

- Internal Audit operates to the standards set out in the '*CIPFA Code of Practice for Internal Audit in Local Government 2006*' and the Council has established an objective and professional relationship with its external auditors and other statutory inspectors.
- 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.
- 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 Head of Legal and HR Services, in her 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 Internal Control & Corporate Governance Framework and the Council's assurance statement on corporate governance is now incorporated 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 giving an opinion on the effectiveness of the Council's systems of internal control
- The Council adopted a new performance framework from 1st April 2006. The new arrangements have provided clearer roles and responsibilities for managers and elected members, particularly Cabinet portfolio holders and scrutiny members of the Budget and Performance Panel. Ongoing development and implementation of the new computerised corporate performance management system is continuing to improve the scope and quality of information and decision making.
- In tandem with performance management developments, the ongoing development of corporate and service-level risk registers is providing improved information and focus on the key risks facing the Council, again serving to improve the overall decision making process. During the year, each of the council's services has developed and published a service continuity plan covering all critical service areas, in line with Civil Contingencies legislation
- The Comprehensive Performance Assessment (CPA) carried out by the Audit Commission in 2003/04 assessed the Council as a 'Fair' performing authority, placing it in the middle of a range of possible scores from Poor to Excellent. The Council has continued to address these, as well as other priority action areas, through our Corporate Improvement Plan. An application by the Council for re-categorisation under CPA has been accepted by the Audit Commission with the review due to be undertaken during 2007.
- In April 2007, the Audit Commission, in its Annual Audit Letter, reported that the Council had strengthened its arrangements in a range of areas, including consultation and community engagement, and performance management and business planning. The Commission's views drew on assessments of the Council's "Direction of Travel" and its "Use of Resources", in which it judged us to be "consistently above minimum requirements – performing well".

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:

- **Improve the Value For Money** we provide by continuously challenging and reviewing the efficiency with which we manage the organisation and provide our services.
- **Continue to strengthen our delivery of customer-focussed services** by continuing to improve how we undertake consultation and community engagement, contributing to more focussed business planning and allocation of resources.
- **Improve decision making** by completing the implementation of the new performance management arrangements and improving the scope and quality of performance information.
- **Manage risk more effectively** by fully implementing the risk management strategy and embedding risk management processes throughout the Council and its main partnerships.
- **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.
- **Continue to develop the effectiveness of governance arrangements** by continuing to raise staff, elected Member and stakeholder awareness of our standards and by continuing to build effective relationships with our partners.

I S Barker
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Head of Legal and HR Services
Monitoring Officer

N Muschamp
Head of Financial Services
(Section 151 Officer)