

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

1 SCOPE OF RESPONSIBILITY

The Borough of Poole 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 Borough of Poole 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 Borough of Poole 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 encompasses the policies, processes, tasks and behaviours designed to identify and prioritise the risks to the achievement of the Authority'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. This includes safeguarding of assets, maintenance of proper records and information and adherence to policies, laws and regulations.

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 has been in place at the Authority for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

3 THE INTERNAL CONTROL ENVIRONMENT

The key elements of the Authority's internal control environment are described below. The documents stated are available from the Authority and many are available on the Authority's intranet website.

The Authority has adopted a Constitution which sets out how the Council operates, how decisions are made, and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

Policy and decision-making is facilitated through the establishment of a Cabinet committee. Meetings of this and other committees are open to the public except where personal or confidential matters are being disclosed. Portfolio Holders may take decisions on behalf of the Cabinet within their areas of operation. In addition, senior officers of the Council can make decisions under delegated authority. A Forward Plan is published which

contains details of key decisions to be made by the Council, its committees and Service Unit Heads under their delegated powers.

The Council satisfies the guidelines of the CIPFA/SOLACE Framework for Corporate Governance, although this has not currently been formally adopted.

The Council is putting in place systems for identifying and evaluating all significant risks, developed and maintained with the pro-active participation of all those associated with planning and delivering services. The Council's adopted Risk Management Strategy, which explains the rationale and methodology behind the comprehensive framework for the management of risk throughout the Authority, will be revised and updated in 2007. The Council's Corporate Planning Framework includes a Summary Business Plan template and associated Risk Assessment Tool which aims to embed risk management across the Authority. Risk Registers are in place and an overall Corporate Risk Register will also be approved. On-going training and support has been made available to appropriate staff in the assessment, management and monitoring of risks, with further training scheduled in the forthcoming year.

The Council has an effective performance management framework as described in the Corporate Planning Framework. The Corporate Performance Team supports the Authority to identify, deliver and monitor its strategic and service priorities in conjunction with partners and to achieve and evidence continuous improvement. The system is driven by the Corporate Strategy and Business Plan which focuses attention on corporate priorities. This is cascaded through Service Unit business plans, individual employee interviews and action plans. The Council's Cabinet committee receives monthly financial monitoring reports and six-monthly reports on progress against key milestones and key outcome and performance measures, and considers and approves corrective action where necessary. The Council is collaborating with other local authorities to acquire and implement new performance management software to further strengthen existing systems.

Through reviews by external auditors, external agencies, and Internal Audit, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is also reflected in the Council's Business Transformation Strategy – a plan approved by Cabinet during 2006/07 to ensure that the Council uses its financial, property, human and ICT assets to the optimum.

The Council's services are delivered by trained and experienced people. The Council has achieved Investors in People accreditation across all Service Units and all posts have a detailed job description. Training needs are identified through the Employee Development Scheme (made available to all staff), and addressed by Service Units and the Personnel & Training Services Unit to ensure corporate needs are met. At the last round of joint national pay negotiations, it was agreed that all Councils would complete a pay and grading review. In response, the Authority is conducting a Job Evaluation exercise across the organisation, which aims to ensure that all employees are rewarded fairly and consistently for the jobs they do. Through *'Striving for*

Excellence through Workforce Planning 2007/9, the Authority also seeks to ensure staff are trained to meet forthcoming challenges.

The Council has designated the Head of Legal & Democratic Services as Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and Chief Financial Officer, the Monitoring Officer will report to the full Council if it is considered that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

The financial management of the Authority is conducted in accordance with the financial rules set out in Part 4 of the Constitution and with Financial Regulations. The Council has designated the Head of Financial Services as the Chief Financial Officer in accordance with Section 151 of the Local Government Act 1972. The Council has in place a five-year Medium-Term Financial Plan, updated annually, to support the medium-term aims of the Corporate Strategy and Business Plan – “Striving for Excellence”.

The Council maintains an Internal Audit Section, which operates to the standards set out in the Auditing Practices Board Guidance on Internal Audit, the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, and the Institute of Internal Auditors’ Code of Ethics and International Standards.

The Council has an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit & Inspection Letter.

4 REVIEW OF EFFECTIVENESS

- 4.1 The Borough of Poole 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 the internal auditors and the Extended Management Team within the Authority (who have responsibility for the development and maintenance of the internal control environment), and by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

The findings of the review of the system of internal control are formally considered by the Council’s Service Provision Scrutiny and Audit Committee, in accordance with Regulation 4 of the Accounts and Audit (Amendment) (England) Regulations 2006.

4.2 External Audit and other Inspection Agencies

- 4.2.1 The Comprehensive Performance Assessment (CPA) framework, was used by the Audit Commission to assess the Borough of Poole in 2006. The Audit Commission’s overall judgement is that the Council continues to be ‘Improving Well’ and has maintained a 3 star overall performance (4 being the highest).

4.2.2 The Council scored 3 out of 4 in 2006/07 ('performing well') in the **Use of Resources Assessment** (part of the overall Comprehensive Performance Assessment). This is an improvement to last year (when the Council scored 2), and is made up of the following scores:

| Theme | Description | 2006 Score | 2005 Score |
|---|--|------------|------------|
| Financial Reporting | • Preparation of financial statements | 3 | 2 |
| | • External reporting | 3 | 2 |
| Financial Management | • Medium-term financial strategy | 3 | 1 |
| | • Budget monitoring | 3 | 3 |
| | • Asset management | 1 | 1 |
| Financial Standing | • Managing spending within available resources | 3 | 3 |
| Internal Control | • Risk management | 1 | 2 |
| | • System of internal control | 2 | 1 |
| | • Probity and propriety | 2 | 2 |
| Value for Money | • Achieving value for money | 3 | 2 |
| | • Managing and improving value for money | 2 | 2 |
| Overall Score for 'Use of Resources' | | 3 | 2 |

The Council has detailed action plans in place to strengthen asset management and risk management during 2007/08.

4.2.3 A number of significant external audit reviews and inspections, which commented on the system of internal control took place during 2006/07, the results of which have been used by the Council to assess the effectiveness of the overall internal control environment.

4.3 Internal Audit

4.3.1 The Authority's risk-based Internal Audit Plan is approved by the Section 151 Officer, following consultation with the Service Unit Heads and is reported to the Service Provision Scrutiny and Audit Committee annually. This provides the basis for the review of internal control within the Authority. The Service Provision Scrutiny and Audit Committee monitors achievement of the plan and cascades information to other Scrutiny Committees as appropriate.

4.3.2 Reports on key financial systems have been reported to the Service Provision Scrutiny and Audit Committee.

- 4.3.3 Whilst Internal Audit are unable to give absolute assurance, the results of the reviews completed during the year have resulted in an overall opinion that:
- Systems and internal control arrangements continue to be effective
 - Agreed policies, regulations and Standing Orders are complied with
 - Managers are aware of the importance of maintaining internal controls and accept recommendations made by Internal Audit to improve internal controls
 - Adequate arrangements are in place to deter and detect fraud
- 4.3.4 Internal Audit have not issued any qualified reports this year on key systems and are satisfied that adequate progress has been made by Service Unit Heads to implement recommendations covering improvements to internal controls.
- 4.3.5 The Audit Commission carry out a cyclical review of Internal Audit's compliance with standards and an annual review of their work on key financial systems. Their Annual Audit and Inspection Letter states that Internal Audit's work is of a sufficient standard to enable them to place reliance on it when planning and conducting their own work.
- 4.3.6 Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006 requires local authorities to review the effectiveness of their system of internal audit once a year. At Borough of Poole, the review process is more substantial and occurs continuously throughout the year. The Authority's Service Provision Scrutiny and Audit Committee (SPSAC) is responsible for the audit functions of the Council, and meets on a quarterly basis to consider internal audit performance and activity reports. The Chief Auditor attends these meetings. Additionally the SPSAC reviews and approves the internal audit annual risk based audit plan, assurance reports, the Chief Auditor's Annual Report and the results of the external auditor's review of internal audit.

4.4 **Management Assurance Statements**

- 4.4.1 All Service Unit Heads have produced and signed-off 'control self-assessments' in the form of annual Management Assurance Statements.
- 4.4.2 Validation of Management Assurance Statement entries will be carried out during 2007/08 through Internal Audit's programmed work.

5 **SIGNIFICANT INTERNAL CONTROL ISSUES**

Steady progress has been made throughout the year against the issues identified in last year's Statement of Internal Control. The areas where significant progress has been achieved include:

- **Major Projects** – the Council has now ensured that the impact of all major projects (including XL) on its capacity and finances has been fully evaluated and built into its medium term strategies.
- **Benefits Service Security Arrangements** - action has been taken to ensure that management and performance issues raised by the Benefit Fraud Inspectorate in October 2005 have been addressed.
- **Supporting People Programme** – improvements have been made to the Supporting People Programme, including the development of a clear

strategy and the strengthening of performance management arrangements.

- **Medium Term Financial Plan** – appendices have been added to clarify links to the Council’s strategic objectives and the longer-term financial implications of major capital projects.

The following issues are ongoing with agreed action plans in place:

1. **Business Continuity Plan** – The Council has an agreed an action plan, following the work performed in 2006 by its insurers on Business critical systems. The action plan will be implemented during 2007/08
2. **Full Sail Ahead project** – Previous recommendations made by the Audit Commission have now been largely implemented. In line with additional Audit Commission recommendations, the Council will continue to maintain close scrutiny of progress on the project throughout the year.
3. **Risk Management** – The Council acknowledges that further work is required in order to fully embed risk management within the organisation’s culture. An updated detailed action plan remains in place.

New Control Issues identified during 2006/07

In addition, the following significant internal control issues were identified during 2006/07:

| No. | Issue | Action |
|-----|---|---|
| 1 | <p>Contract Management Arrangements The Council’s Internal Audit team has undertaken a number of reviews on capital and revenue contracts across the Authority in 2006/07. These audits identified both instances of non-compliance with the Authority’s existing contracting and tendering procedures and areas of inadequate project management.</p> <p>The Council recognises the importance of ensuring arrangements and procedures are adequately in place as it is embarking on a number of significant projects.</p> | <p>Improved Project Management monitoring arrangements are planned for 2007/08.</p> |
| 2 | <p>Arrangements for working with Partners and Service Providers The Council recognises both the need to work closely with partners and service providers, and the need to optimise ‘shared services’</p> | <p>The Council aims to fully utilise partnership arrangements to ensure delivery of better services – particularly with regard to</p> |

| No. | Issue | Action |
|-----|--|---|
| | to secure better services and outcomes for Poole. The Council also acknowledges the need to develop a more robust system for monitoring targets and outcomes for partnerships, partnership arrangements and for shared services. | arrangements for working with health partners to secure better health and social care outcomes |
| 3 | <p>Asset Management</p> <p>The Council achieved a score of 1 (inadequate performance) for asset management within the CPA assessment for 2006/07. The Audit Commission has recommended that the management of and reporting arrangements for the Council's asset base should be improved</p> | The Council has a strategy to develop and implement an asset plan during 2007/08 |
| 4 | <p>Value for Money</p> <p>The Audit Commission observed in its Annual Audit & Inspection Letter that there is scope for improving Value for Money further through:</p> <ul style="list-style-type: none"> • A more strategic approach to procurement • Improving some aspects of service performance in areas where spending is comparatively high • Performance Management – use of a wider range of performance indicators to aid delivery of strategic objectives | These issues are included within the Council's overall Business Transformation Strategy |
| 5 | <p>Affordable Housing</p> <p>This is a priority service area of the Council that significantly impacts upon the shape and well being of the town. The Audit Commission carried out an inspection on Affordable Housing during 2006/07, and identified a number of areas for improvement – including the mix of affordable housing, coordination of s106 agreements with targets in the</p> | Specific action plans have been drawn up to implement the recommendations made by the Audit Commission. The Council also needs to review and fully understand the impact of current strategies in delivering priority outcomes. |

| No. | Issue | Action |
|-----|--|--|
| | Housing Strategy, and monitoring of achievement of targets and value for money. | |
| 6 | Anti-Fraud and Corruption The Audit Commission has, in its Annual Audit & Inspection Letter, identified a need for more proactive counter fraud and corruption work to be undertaken - determined by a formal risk assessment. | It is planned to undertake a formal risk assessment with regard to fraud and corruption by September 2007. |

To the best of our knowledge, the internal control environment as identified above has been effectively operated during the year.

Signed _____ Date _____

J McBride
Chief Executive

Signed _____ Date _____

Cllr B Leverett
Leading Member of the Council