

Statement on the system of internal control

1. Introduction and context

It is our responsibility to ensure we conduct our business in accordance with the principles of good governance – honesty, integrity, openness and accountability.

In April 2003 we adopted a Local Code of Corporate Governance based on the framework developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). This sets out the principles of good governance across five dimensions; community focus, service delivery arrangements, structures and processes, risk management and internal control and standards of conduct. In adopting the code we set out the ways in which we could demonstrate compliance with these principles.

One requirement of the Local Code of Corporate Governance is to have sound systems of financial management, internal control and risk management. The Accounts and Audit Regulations 2003 confirm that we are responsible for putting these in place and making sure they are effective. The regulations also require us to undertake a review of their effectiveness at least once a year and produce a Statement on Internal Control (SIC).

This SIC provides information about internal control and risk management. It complies with “proper practice” as set out in part 4 of the CIPFA publication “The Statement on Internal Control in Local Government”.

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 eliminate all risk of failure to achieve our policies, aims and objectives. This statement can therefore only provide a reasonable and not an absolute assurance of effectiveness.

The system is an ongoing one, which has the following aims:

- to identify the key risks to the achievement of our policies, aims and objectives
- to evaluate the likelihood of those risks being realised
- to assess their potential impact should they occur
- to manage the risks effectively, efficiently and economically and where necessary prioritise them.

The internal control system has been in place for the year ended 31 March 2007 and up to the date of approval of the Statement of Accounts.

3. The internal control environment

The internal control system can only work effectively within an environment in which there are procedures for:

- establishing and monitoring the achievement of the Council's objectives
 - facilitating policy and decision-making
 - ensuring compliance with established policies, procedures, laws and regulations
 - ensuring the effective, efficient and economical use of resources and securing continuous improvement
 - ensuring sound financial management and the reporting of financial management
 - ensuring performance is managed and reported.
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- ***Establishing and monitoring objectives***

We adopted a Statement of Strategic Intent and Strategic Objectives in February 2002 and reviewed and updated it in 2004. It has provided the framework within which more detailed targets have been set.

During 2003/04 the newly-elected Council consulted the public on immediate priorities and these were reflected in the budgets for 2004/05, 2005/06 and 2006/07. In parallel, we worked with the South Oxfordshire Partnership (SOP) to finalise the South Oxfordshire Community Strategy "Our place, our future" which focuses on achieving key aims. The SOP is made up of representatives from the public, private, voluntary, community and faith sectors. As one of the key partners on the SOP we take the lead on a number of the targets which sit under the South Oxfordshire Community Strategy's key aims.

The Citizens' Panel is a group of local residents, broadly representative of the area as a whole, with which the Council regularly consults to ensure that Council services are meeting the needs of the community. The panel consists of 1,000 residents who are sent surveys around four times a year. In 2006/07 the survey covered community safety, the housing strategy and refuse and recycling information.

We also consult through our residents' newsletter "Outlook" which is delivered three times a year to the district's 55,000 households. Another publication that went live in 2006 is Outburst, which is the Council's first online magazine and enables online polls on topical subjects.

The Council's priorities and objectives are detailed in its Corporate Plan which sets out its strategic objectives over the next three years. The Corporate Plan sits below the South Oxfordshire Community Strategy. Our Corporate Plan reflects national government priorities and the changing needs of residents in

South Oxfordshire. It is currently a three-year rolling plan which is reviewed on an annual basis to ensure it is up to date and reflects the changes required. We intend to carry out a major review of the plan following the elections in 2007 to ensure it reflects the priorities of the new Council. At this time the Plan will change to a four-year rolling plan to align with the electoral cycle. The Corporate Plan provides the framework for all our strategies and action plans. Further details of the targets we set for 2006/07 can be found in our Corporate Plan.

Beneath the Corporate Plan are a number of more detailed strategies. Some of these set out the Council's plans across a broad theme, e.g. implementing electronic government whilst others set out more detailed proposals for the future of a service, e.g. sports and active recreation.

The Council's targets are monitored via its performance management system. Where targets are not being met, heads of service discuss these on a monthly basis with their strategic director. Thereafter Cabinet receives quarterly performance monitoring reports. These performance monitoring reports are also presented to the Corporate Improvement Scrutiny Committee at which time Cabinet members are expected to attend the committee to account for under-performing targets.

- ***Policy and decision making***

Our Constitution sets out how the Council is managed. We have adopted a decision-making structure comprising a Leader and Cabinet, with two scrutiny committees to help develop policy and to review our performance in meeting our objectives. We also have a "scheme of delegation" within our Constitution which sets out decisions that individual members of the Cabinet or officers can take without needing Cabinet approval. All decisions must be taken within the budget and policy framework agreed by the full Council. The Constitution is reviewed twice annually to ensure that it is up to date.

When key decisions are to be made, these are published in the Council's Forward Plan which details decisions to be made in the forthcoming four months and people/organisations that have been consulted before the decision is made. Many of the key decisions are subject to a period of statutory consultation before a decision can be made.

Committee meetings are open to the public except when information is confidential or exempt matters are being disclosed. In 2006 the Council enabled wider access to decision making through the introduction of meeting webcasts that allow people to watch Council, Cabinet and planning meetings via the internet. In 2007, the Council intends webcasting meetings of the scrutiny committees and the Audit and Corporate Governance Committee enabling wider access to decision making. The public can access non-

confidential or non-exempt agendas, reports and minutes from the Council's website.

- ***Compliance with policies, procedures, laws and regulations***

Our Constitution includes a set of procedure rules that govern how we conduct our business. It also includes protocols covering, for example, the disclosure of interests in contracts and the relationship between officers and councillors.

The Constitution includes our Code of Conduct for councillors which incorporates the mandatory requirements of the Model Code of Conduct. Our Standards Committee was actively involved in preparing this code and has monitored and determined complaints made to the Standards Board for England. It has also responded to the consultation on the revised Model Code of Conduct and will be actively involved in its implementation once the new Model Code is published in 2007.

We have two officers who have specific and personal responsibilities - the Section 151 Officer oversees the financial arrangements of the Council, while the Monitoring Officer deals with legal issues and the proper conduct of business. In addition, the Chief Executive, as head of the officer staff, oversees the employment and conditions of staff. Collectively the officer Management Team reviews all reports going to the Cabinet and the decisions that individual members of the Cabinet intend to take under delegated powers.

In 2006, an Audit and Corporate Governance Committee was set up with the role of overseeing corporate governance matters including risk, audit, and the financial accounts

A regular programme of work is carried on by the Internal Audit section which monitors compliance with established procedures. The Council has maintained an adequate and effective internal audit service, as part of which the implementation of recommendations made in audit reports has been checked. Arrangements have been put in place to ensure that recommendations made by auditors and inspectors are responded to appropriately.

The Legal Services team identifies areas of potential legal risk in the Council's business. In 2006 the Legal Services team was awarded Lexcel. This accreditation is a quality mark which the Law Society has developed and which is only awarded to legal practices that undergo rigorous independent assessment each year to ensure they meet the required standards of excellence in areas such as customer care, case management and risk management.

In 2003 we engaged consultants to help identify corporate risks and develop our risk management strategy. A strategy has been completed and agreed by the Cabinet. Heads of service have received training and have drawn up risk registers and risk management action plans for their services, which have informed service plans and budget planning.

- ***Effective, efficient and economical use of resources and securing continuous improvement***

In 2004, the Council was assessed as *good* in the Comprehensive Performance Assessment (CPA). Our stated aim is to be classed as *excellent* in 2007.

Our system of internal control means that we can report that we have sound and strategic financial management so our resources are directed towards supporting our priorities. To this end we achieved a score of three in the Audit Commission's Use of Resources assessment which means we are performing well against Audit Commission criteria.

- ***Financial management***

The Section 151 Officer has overall responsibility for ensuring the Council has a safe and proper system of financial administration.

The financial procedures within our Constitution set out how we will manage our financial resources and secure sound financial administration. These include how budgets are prepared and funds are controlled and released. The financial procedures include the requirement for a system of internal audit to review, appraise and report on the soundness, adequacy and application of financial controls and the internal control environment. The effectiveness of Internal Audit is reviewed by our external auditors, who have been able to rely on the work undertaken in forming their opinion on the Council's accounts.

A key aim is to keep any increase in expenditure within inflation so that we can keep council tax as low as possible. We continue to refine our formal system of service planning in order to explicitly link the use of resources to the achievement of outcomes that help meet our objectives. Our Medium Term Financial Plan explains how we use these principles in preparing our spending plans. To achieve our spending plans we:

- seek efficient and economic ways of providing services and reduce spending where we can
- focus new spending on our priorities
- maximise our income by collecting it quickly and efficiently
- create our own sustainable sources of income
- invest to make savings in the longer term

- use our own funds to pay for new investment rather than borrow money

Each month heads of service monitor expenditure and income. Summary reports are presented to the Management Team and members of the Cabinet.

- ***Performance management***

Our Statement of Strategic Intent complements the Community Strategy and sets out the Council's long term vision. From the Statement of Strategic Intent we have seven strategic objectives. More information about our strategic objectives is contained within our Corporate Plan.

The framework of strategic objectives is supported by targets and is built into the Council's performance management system. Each of the Council's service teams has a service plan that sets out the actions that each team will work on during the year. The service plans show how each team will contribute in the year to the higher level objectives set out in the Corporate Plan.

Heads of service are responsible for data collection and its accuracy. They monitor and manage their service's performance against service plan targets, reporting to their strategic director on a monthly basis and to the Cabinet on a quarterly basis. The Corporate Improvement Scrutiny Committee also has a key role in examining the quarterly performance monitoring reports with Cabinet members attending the Committee to account for underperforming targets.

Our performance appraisal scheme focuses on agreement of targets between managers and individuals with the objective being to relate targets to service plans. Throughout the year, staff have meetings with their managers to review progress and discuss and plan personal development in line with the Council's objectives.

In the process of monitoring performance, we forecast year-end outcomes and undertake action planning to get measures back on track if they are below target. In addition, we review performance at the end of the year and use this to help set targets for the coming year.

The Audit Commission's Direction of Travel assessment, which judges the Council's likelihood of improvement, has confirmed that the Council is building upon the good performance identified in the 2004 CPA assessment.

4. Review of effectiveness

- ***Sources of assurance***

We are responsible for conducting a review of the effectiveness of our internal control system. The review of effectiveness is an ongoing process. It is informed by the work of officers within South Oxfordshire District Council who have responsibility for different aspects of the control environment and subsequently report to their strategic director. A corporate overview of the system of internal control is taken collectively by the Corporate Management Team which reviews the sources of assurance at its regular meetings. The key processes that are the sources of assurance for 2006/07 include:

- the service risk registers
- the work of internal auditors
- business continuity planning
- compliance with the Local Code and the Code of Corporate Governance Assurance Statement

Risk assessments are carried out throughout the year and an annual risk review assessment is carried out. The priority risks are managed through the production of risk mitigation action plans for priority risks with the aim of reducing the impact, likelihood or both. All risks are recorded on the risk register. In 2006/07 there were 140 risks that reduced by either impact or likelihood; only 20 increased in impact or likelihood and 132 stayed the same. There were 127 risks above the tolerance line in 05/06 but only 85 in 2006/07.

Internal Audit carried out a planned programme of system reviews during 2006/07. The Head of Finance's Annual Report on Internal Audit states that the overall adequacy and effectiveness of the Council's control environment is *satisfactory* subject to all agreed recommendations being implemented. During the course of the financial year no reviews resulted in an opinion of *poor*. In two instances, the Internal Audit opinion was unsatisfactory. In both instances the view of Internal Audit was that the recommendations made, on being satisfactorily implemented, would mitigate any risks associated with the identified issues and concerns. During the year risk management and all of the key financial systems were audited. Such opinion on the adequacy and effectiveness of internal control has been given against an awareness that the Council may not be fully compliant with the revised Code of Practice published by CIPFA late in 2006. To ascertain compliance requires substantial review. A review will take place with significant implications being reported to the Audit and Corporate Governance Committee.

Senior officers have met regularly with the Council's external auditor and received assurance from their work. Arrangements have been put in place to ensure that recommendations made by auditors and inspectors are responded to appropriately.

In 2006, a **Business Continuity Strategy** was approved. As part of its role in monitoring business continuity arrangements within the Council, the Audit and Corporate Governance Committee was offered training in this role. The

Business Continuity Strategy includes an action plan which involves annual testing of each service's recovery plan and annual reviews to update plans.

In 2006/07 we revised the way in which we use of the **Local Code of Corporate Governance**. Rather than report historically on ways in which we comply with the Local Code, we transformed it so now we have a forward looking performance monitoring system where we set targets for actions to be taken to comply with the Local Code. We now call this the **Code of Corporate Governance Assurance Statement**. The benefit of this new system is that we can easily see if we are on target to meet our corporate governance objectives. During 2007/08 this performance management system will be further aligned with the Council's existing performance management system once we are aware of the outcomes of the 2006 consultation on revisions to the Model Code of Corporate Governance. During 2007/08 the Committee will receive an update on progress against corporate governance targets as part of the assurance gathering process. In the meantime, measurement of the Code of Corporate Governance Assurance Statement shows that we are on track to meet almost all objectives.

Other sources of assurance include the work of the **Audit and Corporate Governance Committee** and the **scrutiny committees**. The work of the scrutiny committees is considered in the next section. In 2006 we set up an Audit and Corporate Governance Committee. With a key role in risk management within the Council, the Committee received training on risk management to further embed the risk process: such training will be made available to all councillors after the elections in 2007. The Committee has also received training on its role and terms of reference; training on business continuity planning and risk management; reports on the audit planning process and role and work of internal audit; presentations on the role of external audit and the Chairman has attended another organisation's Audit Committee to benchmark the way it works. The Committee has a role in dealing with staffing matters that involve enhanced benefits for staff. The Committee also has a role in complaints and monitoring those made to the Ombudsman.

Neither the Section 151 Officer nor the Monitoring Officer had to exercise their statutory powers in 2006/07.

- ***Progress on 2005/06 SIC objectives***

As part of our action planning arising from the 2005/06 SIC, we have increased the role of our scrutiny committees in policy development and pre-cabinet scrutiny. There is greater emphasis on activities that support the work of the Council and activities that advise on policies, budgets and service delivery. Targets were set to undertake a number of scrutiny reviews during the year and we are on target to meet these objectives. One such review has

involved a review of the operation of the Council's capital programme which was referred to in the 2005/06 SIC.

We are making progress on the 2005/06 SIC objectives to improve upon MORI customer satisfaction findings. The indications are that we have improved customer satisfaction ratings from the recent Best Value Performance Indicator surveys and we are also on our way to improving customer services via our customer service centre with elements of telephone call handling soon to be dealt with via a customer service centre.

In 2005/06 we said we needed to share good practice in performance management and this is being effected through the production of a handbook setting out expectancies for performance management.

We also needed to progress our plans to engage with hard to reach communities. To do this we set targets to improve understanding of barriers to access/need and we are on track to meet this objective with services carrying out a programme of equalities impact assessments.

To this end, our system of internal control and the improvements we have made have resulted in the Audit Commission stating that the Council's plans for improvement are robust thus indicating progress towards our stated aim to be classed as *excellent* in 2007. The Audit Commission's comments relating to areas requiring attention are detailed below.

- ***Objectives for 2006/07***

The Audit Commission's Annual Audit and Inspection Letter sets out some performance areas requiring attention for 2006/07. More specifically they relate to the Use of Resources Auditor Judgements 2006 in the areas of value for money, financial management and internal control. Targets will be set to make such improvements and will be built into the Code of Corporate Governance Assurance Statement.

5. Significant internal control issues

From each of the above components, making up the sources of assurance, we are confident that the internal control framework contains action plans to address recommendations made to us and to identify any risks to the attainment of principal objectives.

During 2007 we will update our Corporate Governance Assurance Statement to further enhance our governance arrangements. We are satisfied that these steps will address the need for any improvements to our system of internal control and we will monitor its implementation and operation as part of our next annual review.

Signed:

Leader of the Council

Chief Executive

Date: