STATEMENT ON INTERNAL CONTROL & CORPORATE GOVERNANCE 2006/07

1. SCOPE OF RESPONSIBILITY

Bath & North East Somerset 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 its services are delivered in terms of economy, efficiency and effectiveness in order to demonstrate 'Best Value'.

In meeting its responsibilities, the Council must ensure that there is a sound system of internal control which facilitates the effective exercise of the Councils functions and which includes arrangements for the management of risk. The Council has also approved and adopted a Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE framework 'Corporate Governance in Local Government: A keystone for 'Community Governance'.

2. CORPORATE GOVERNANCE & THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

Corporate Governance is defined as 'the system by which local government directs and controls its functions and relates to its communities'.

Good corporate governance underpins credibility and confidence. The principles embedded in the culture of individual local authorities and applied within a defined framework of management processes should be transparent to all stakeholders. Local Authorities also have a community governance role, and by making explicit the high standards of self-governance achieved, local authorities can give a lead to potential partners from the public, private or voluntary sectors.

The overriding principles which were adopted by this Council are –

- ➢ 'Openness'
- ➢ 'Equality'
- ➢ 'Accountability'
- ➢ 'Honesty'
- ➢ 'Integrity'

The Council's governance framework comprises the systems and processes for the direction and control of the Council, and how it engages and reports to the community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It 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 the Council for the year ended 31st March 2007 and up to the date of approval of the annual report and accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

The Internal Control environment is made up of a number of key elements which include:

a) A Constitution, which sets out how the Council operate, how decisions are made, and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

b) The establishment and monitoring of the achievement of the Council's key priorities and objectives through its Corporate, Financial and Service Planning processes.

c) Policy and decision-making process through the Full Council, Executive and Overview and Scrutiny arrangements.

d) Maintenance of a Corporate Audit Committee and Standards Committee in compliance with best practice.

e) Establishing sound financial management of the Council through the appointment of the Strategic Director Support Services as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972, adherence to best practice and its own financial standards and rules. The Council has in place a Financial Plan to support the aims of the Corporate Plan and a system of regular reporting of its financial position and performance during the year.

f) Adoption and maintenance of Council policies, procedures and standards to comply with legislation and best practice.

g) The designation of the Council Solicitor as Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.

h) Maintaining an effective Internal Audit Service, as assessed by the Council's appointed External Auditor, which operates to the Standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'.

i) Maintaining an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit and Inspection Letter.

j) Establishing a robust Performance Management system to monitor delivery of key performance indicators and targets and the use of the Balanced Scorecard.

k) Maintaining risk management processes to effectively manage strategic and operational risks.

l) Seeking assurance from External Audit and other Inspection Agencies to confirm the economic, effective and efficient use of resources, and for securing continuous improvement in the way its functions are exercised.

4. REVIEW OF EFFECTIVENESS

The Council conducts an annual review of the effectiveness of the system of internal control and its corporate governance arrangements. This review is informed by Senior Management responsible for the development and maintenance of the internal control environment, work completed by Audit, Risk and Information Service and comments made by External Audit and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of these systems includes:

- Audit, Risk and Information Service devising a methodology to formally review the Systems of Internal Control for the purposes of this Statement, in accordance with best practice. This includes the completion of assurance questionnaires by Assistant Directors and Heads of Service in relation to the Council's internal control environment. This process included the review of the CIPFA/SOLACE model in respect of Corporate Governance.
- The Council's Constitution Group with advice from the Monitoring Officer reviewing the operation of the Constitution and recommending changes to Full Council.

- Overview and Scrutiny Panels holding public inquiries into matters of local concern which lead to reports and recommendations to the Executive and Council on policies, budget and service delivery. They also monitor the decisions of the Executive and other persons / bodies and may of their own volition (or be asked) to 'call-in' a decision which has been made but not yet implemented.
- The Corporate Audit Committee, in which it's key role will be to determine and oversee the Council's corporate and financial governance arrangements in support of and supported by the Council's Chief Financial Officer.
- Maintaining an Internal Audit team within Audit, Risk and Information Service which is responsible for monitoring the quality and effectiveness of the systems of internal control. A risk based methodology, approved by the Council's appointed External Auditor, has been adopted to enable Council activities to be selected for review purposes. Following each review a report providing an 'Assurance Rating' and an action plan is presented to management.
- The Audit, Risk and Information Service investigating and reporting on cases of financial irregularities.
- Ensuring Audit, Risk and Information Service is subject to regular inspection by the Council's External Auditors.
- Maintaining a Service Planning and Performance Management framework. Service Resource Plans set out how Services contribute to the Council's Objectives and Improvement Priorities. This feeds into the review of the Corporate Plan and the Budget process. For Performance Management purposes managers submit structured monthly performance reports to their Head of Service, who compile a Service Performance Report for their relevant Director who take a Four Monthly Directorate Report to Directors Group and the Executive.
- The Strategic Directors Group reviewing the Council's Corporate Governance processes including monitoring the embedment of performance and risk management processes.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Council, and a plan to ensure continuous improvement is in place.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

The following issues have been identified for action by 31st March 2008:

No.	Issue	Action
1.	**Bath Spa – Claims** Work has been ongoing during 2006/07 in relation to Bath Spa Claims both in terms of defending unjustified claims and being prepared to progress justified claims against third parties. These claims total £25 - £30m. Significant costs will need to be funded to resolve the claims position.	The Council will continue to resource the claims process and the strategy will be continually reviewed in light of the ongoing developments.
2.	**Single Status** The Council has been in discussions with the Trade Unions since October 2004 and have not been able to reach agreement during 2006/07. The result of the UNISON membership ballot in May 2007 has enabled the Council to sign a collective agreement with the three signatory Trade Unions.	Single Status Project Board should continue to receive weekly reports from the Project Team and review the strategy as required.

No.	Issue	Action
3.	**Capital Programme - Structures & Control Mechanisms** The Capital Programme has and will continue to be significant and requires effective risk management / mitigation. The Council needs to ensure that the necessary resources and expertise are in place to meet the increased demand on financial management and internal audit.	1) Continue to develop and embed the project management methodology adopted by Major Projects. 2) Restructure staffing to ensure dedicated Capital and Project Finance capability to support the decision making and governance processes in the context of the overall financial management of the Capital Programme and Revenue Budget impact. 3) Allocate additional staffing resources to the Audit, Risk & Information Service to increase scrutiny of Major Projects.
4.	**Partnerships – Governance** There is an increasing reliance on partnerships to deliver the Council's objectives. A Corporate Partnership governance framework needs to be developed for consideration when introducing new partnerships and reviewing existing relationships.	1) Develop a Partnership Governance Framework. 2) Review current partnerships in relation to the adopted Partnership Governance Framework.
5.	**Business Continuity Planning** Under the Civil Contingencies Act Local Authorities have a statutory duty to have plans in place to ensure they can continue to deliver critical services. All Council Services must have up to date documented Business Continuity Plans, which have been adequately tested and are accessible to staff pre-designated as 'Key' for the purposes of ensuring continuity of service provision.	A Business Continuity Planning Framework and management action plan will be developed using the British Standards Code of Practice for Business Continuity Management (BS25999).
6.	**Financial Management – Outturn 2006/07 and Delivery of 2007/08 Budget.** The outturn for 2006/07 recorded a number of service areas that recorded significant pressures. This may have a significant impact on the budget for 2007/08 and future years and requires the Council to identify and deliver significant savings.	1) Action Plans are prepared and monitored for: a) 2006/07 pressures continuing in 2007/08; b) 2007/08 planned savings. 2) The Council's Medium Term Financial Strategy is to include a requirement for robust action plans to be produced for future years proposals. 3) Improve monitoring of activity levels and financial information in volatile / high risk / demand led budgets to enhance management information.

SIGNED BY:

DATE: **DATE:**

FRANCINE HAEBERLING   **JOHN EVERITT**
LEADER OF THE COUNCIL   **CHIEF EXECUTIVE**