



Coventry City Council

# 8.7

## Public report

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### Report to

Scrutiny Board 1 - Audit Sub Group  
Cabinet  
Council

26<sup>th</sup> June 2007  
26<sup>th</sup> June 2007  
26<sup>th</sup> June 2007

### Report of

Acting Director of Finance and ICT

### Title

Statement on Internal Control 2006-07

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## 1 Purpose

- 1.1 The purpose of this report is to seek approval for the Statement on Internal Control (SIC), which forms part of the 2006-07 Statement of Accounts. Best practice as reflected in the Corporate Performance Assessment of Use of Resources requires that the approval of this Statement is considered separately from the Statement of Accounts.

## 2 Recommendations

- 2.1 To approve the SIC for 2006-07 (attached as Appendix One) and to authorise the Leader and Chief Executive to sign it on behalf of the City Council.

## 3 Information / Background

- 3.1 Coventry City Council must conduct its business in accordance with the law and ensure proper standards; safeguard public money and account for it properly; and use it economically, efficiently and effectively so as to achieve value for money. It must also, under the Local Government Act 1999, make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control that facilitates the effective exercise of its functions including arrangements for risk management.
- 3.2 As a result, the Council is required to produce a SIC and include this statement within the annual accounts. The 2006-07 Statement has been produced based on the same principles as in 2005-06.

## **4 Changes in Guidance**

- 4.1 The Statement of Recommended Practice (SORP) for 2006 now requires that "where the authority is in a group relationship with other entities and undertake significant activities through the group; these activities should be encompassed within the SIC".
- 4.2 Despite attempts to get more clarity on what 'significant activities' are, no specific guidance has been produced. For 2006-07, the Council has extended the scope of the SIC to include the four companies that currently form part of the Group Accounts, namely:
- Coventry and Solihull Waste Disposal Company
  - North Coventry Holdings Limited
  - Coventry North Regeneration Limited
  - Arena Coventry Limited
- 4.3 Within Section 3 of the SIC (Appendix One) is a description of the companies and their links with the Council, along with how such companies currently gain assurance around the robustness of their systems of internal control. The proposed wording has been agreed with senior management from both the Coventry and Solihull Waste Disposal Company and Arena Coventry Limited.

## **5 Significant Internal Control Issues**

- 5.1 Section 5 of the Statement highlights those areas that the Council considers require improvements to the systems of internal control. These areas were identified through a review of the effectiveness of internal control informed by the work of the internal auditors and directors within the Council, who have responsibility for the development and maintenance of the internal control environment, and also by reviews undertaken by the Council's external auditors and other review agencies and inspectorates.
- 5.2 Whilst this process considers new issues facing the Council, it also assesses whether significant internal control issues identified in the 2005-06 SIC were still relevant for inclusion in the 2006-07 SIC. Within last year's SIC, nine areas were identified that required focus and development. An update was received by Scrutiny Board 1 – Audit Sub Group in January 2007 on progress made against the issues raised. For the 2006-07 SIC, we are proposing to exclude three of the nine areas on the basis that these areas are no longer regarded as significant internal control issues. These areas are detailed in Table One overleaf:
- 5.3 For the issues that remain in the SIC from 2005-06, it is worth acknowledging that progress has been made over the last year on improving controls in all the areas identified. The key reasons why they remain in the SIC are that they are high profile areas closely aligned to delivering Council priorities, cover Council-wide activities where improvements will take time to embed into practice, or are expanding areas (e.g. partnerships). In all cases, the nature of the challenge has changed in the last year.
- 5.4 For 2006-07, three new areas have been identified that are included in the SIC. These stem from the reviews carried out by the Council's Internal Auditor Service in 2006-07 and are, in the opinion of the Council's Internal Audit Manager (as reflected in the Internal Audit Annual Report), issues that needed to be considered when the Council produced its SIC for 2006/07.

**Table One: Issues Removed from the 2005-06 SIC**

Description of Internal Control Issue	Update
<p>Developing and implementing action plans to address areas for improvement identified from key independent inspections (i.e. CPA, JAR, Use of Resources) carried out in 2005/06</p>	<p>For all inspections carried out over the last two years, action plans have been developed and approved by Cabinet / Cabinet Member and monitored via the Council's Committee Structure.</p> <p>To support the effectiveness of this process, the Audit Commission reported in June 2006 that "The Council is performing well (in relation to performance management). Robust performance management has contributed to the strong recovery made by the Council since 2002. A clear performance management framework allows priorities and targets to be cascaded through the organisation. Performance management is strong in key partnerships. Councillors are closely involved in developing and monitoring plans and performance."</p>
<p>The Council is planning a number of replacement IT systems in 2006/07. Continued reliance on the internal control environment is dependent on vigorous project management and risk management during this transitional period. Internal Audit is involved in these replacement projects and action plans are in place using the Council's adopted project management principles.</p>	<p>The nature of this issue reflected the fact that during 2006-07, two new replacement IT systems went live, namely Resourcelink (HR / Pay) and Academy (Revenue / Benefits).</p> <p>During 2006-07, Internal Audit undertook detailed work on existing systems to ensure the effectiveness of the internal control environment and liaised closely with project leads on the new systems to ensure that audit expectations were built into the system design.</p> <p>Detailed audits of the operational aspects of these systems are planned for 2007-08.</p>
<p>To review debt recovery procedures (excluding Council Tax and Business Rates) to ensure that monies outstanding to the Council are chased on a timely basis and to enhance the options available in dealing with problematic customers unwilling to pay monies owed to the Council on a timely basis</p>	<p>In 2005-06, an Internal Audit review highlighted significant concerns over the robustness of procedures and controls in this area.</p> <p>Over the last year, a significant amount of work has been undertaken within Exchequer Services to update procedures and address issues identified.</p> <p>Action taken over the last year has been supported by a recent Internal Audit review of Income and Debtors highlighting that significant progress has been made in addressing risks previously identified.</p>

## 5 Other specific implications

	Implications (see below)	No implications
Value for Money	✓	
Children & young people		✓
Comparable benchmark data		✓
Corporate parenting		✓
Coventry Community Plan		✓
Crime and disorder		✓
Equal opportunities		✓
Finance	✓	
Health and safety		✓
Human resources		✓
Human Rights Act		✓
Impact on partner organisations		✓
Information and communications technology		✓
Legal	✓	
Property		✓
Neighbourhood Management		
Race equality scheme		✓
Risk management	✓	
Sustainable development		✓
Trade union consultation		✓
Voluntary sector – the Coventry Compact		✓

## 6. Legal Implications

The City Council is required by the Accounts and Audit Regulations 2003 to approve, and subsequently publish, the SIC within the Statement of Accounts.

## 7. Value for Money, Finance and Risk Management

Internal control systems have clear and direct effects in all three areas, as well as potential impact on other implications listed. Since these vary widely, it is not useful to attempt to summarise them here, beyond noting that all internal control systems are designed to help managers improve either:

- ✓ Value for money obtained;
- ✓ Probity and propriety of financial administration, or

✓ Management of operational risks.

## 8. Timetable

The audited Statement of Accounts, including the SIC will be published by the end of October to meet the statutory requirement.

	Yes	No
Key Decision	✓	
Scrutiny Consideration (if yes, which Scrutiny meeting and date)	✓ Joint Scrutiny Board 1 & Audit Sub Group 26th June 2007	
Council Consideration (if yes, date of Council meeting)	✓ 26th June 2007	

List of background papers

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Papers open to public inspection

**Description of paper**

**Location**

None

## **Appendix One: Statement on Internal Control 2006-07**

### **1. Scope of responsibility**

Coventry City Council must conduct its business in accordance with the law and ensure proper standards; safeguard public money and account for it properly; and use it economically, efficiently and effectively so as to achieve value for money. It must also, under the Local Government Act 1999, make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for ensuring that there is a sound system of internal control that facilitates the effective exercise of its functions including arrangements for risk management.

### **2. The purpose of the system of internal control**

The internal control system supports the Council in its corporate policy making role and in overseeing operational management. It is designed to manage risk reasonably, and in a way that represents value for money, rather than eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on the continuous identification, evaluation and management of risks in order to achieve the Council's policies, aims and objectives.

The internal control system has operated throughout the year ended 31<sup>st</sup> March 2007 and up to the date of the approval of the annual report and accounts. It accords with proper practice and any significant issues arising are covered in Section 5 of this Statement.

### **3. The internal control environment**

The internal control environment supports the Council in establishing, implementing and monitoring policies and objectives. The Council's over arching objectives are contained in the following published policy documents:

- The Coventry Community Plan (the Local Community Strategy)
- The Corporate Plan
- Other statutory plans

These high level plans were supported by Cabinet Member Strategic Plans, operational plans, detailed work programmes and individual employee appraisals during 2006-07.

Coventry's second Community Plan published in July 2004 and setting out strategic aims reflecting both national and local priorities, was revised in January 2006 to incorporate the Local Area Agreement. The Community Plan was drawn up after consulting the local community, partners and staff. It is based on an assessment of the needs of the community and an evaluation of alternative options for improvement. The Local Area Agreement is designed to be a contract agreement between central and local government to deliver both central and local priorities and a vehicle for allocating area based funding.

The Council recognises that it cannot deliver the aims of the Community Plan without the support of other groups and organisations and consequently it is an active participant in the Local Strategic Partnership. The Partnership involves

many organisations and individuals with different aims and working arrangements, but linked together through a commitment to deliver the Community Plan.

The Corporate Plan sets out the Council's vision and core values, including its contributions to the Community Plan, and affirms its commitment to continuous service improvement. This is supported by Cabinet Member Strategic Plans which have a three year horizon, and which focus on the strategic objectives allocated to individual Cabinet portfolios.

The control environment to ensure delivery of the Council's plans and objectives is laid down in the Council's Constitution and performance management framework. The Constitution sets out how the Council operates, how decisions are made and the procedures to ensure that these are efficient, transparent and accountable to local citizens. The law requires some of these processes while others are determined by the Council.

The Council's risk management strategy includes processes for identifying, assessing, managing and monitoring financial and operational risks. Risk Registers at directorate and corporate level are updated and reviewed regularly by managers and elected Members. The Council is looking for continuous improvement throughout the Council in the management of risks, and this is being done through the Corporate Risk Management Group.

The Council acknowledges its responsibility to ensure that it operates an effective system of internal control to ensure proper management of its resources. The system of internal control provides an effective framework to support the Council in achieving its objectives. The internal control system includes:

- A performance management framework.
- A risk management process.
- Setting and monitoring achievement of targets for service improvement and financial performance.
- A robust medium term policy and financial planning process, incorporating a medium term financial strategy.
- Comprehensive corporate budgeting system, and regular monitoring of spending and income against revenue budgets and capital programme.
- Formal project management disciplines.
- Annual risk based external and internal audit inspections.

The Council has developed a performance management framework which ensures that it focuses on priorities, improves performance, increases efficiency, and delivers value for money. It takes the top-level objectives and targets in the Community and Corporate Plans and cascades them through the Authority to facilitate the setting of service and individual objectives. Performance is monitored quarterly to determine progress and ensure that the Council is on course to meet its targets.

In addition, the Council's Group Accounts include four separate companies detailed below.

Coventry and Solihull Waste Disposal Company is owned jointly by Coventry City and Solihull Metropolitan Borough Councils. A formal agreement sets out the operating arrangements between Coventry and Solihull. The Company is subject to the Waste Incineration Directive and the conditions of its Integrated Pollution Prevention and Control License issued by the Environment Agency. Furthermore, the Company monitors its activities through an accredited Environmental

Management System. The Company has appointed Ernst & Young LLP as its external auditors. The last published Annual Report and Financial Statements, for the year ended 31<sup>st</sup> March 2006, did not highlight any significant concerns.

North Coventry Holdings (NCH) Limited is a wholly owned subsidiary of the Council. The Directors of the Company are also senior officers of Coventry City Council. The Company has appointed PricewaterhouseCoopers as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31<sup>st</sup> March 2006. Its purpose is to hold shares in the following companies.

Coventry North Regeneration (CNR) Limited is a wholly owned subsidiary of NCH Limited. The main activity of the Company has been the construction of the Ricoh Arena. The Directors of the Company are also senior officers of Coventry City Council. All transactions are processed using the Council's financial systems and such activities are subject to an annual audit by the Council's Internal Audit Service. The Company has appointed PricewaterhouseCoopers as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31<sup>st</sup> March 2006.

Arena Coventry Limited (ACL) is a joint venture between NCH Limited and Football Investors Limited (a company owned by the Alan Edward Higgs Charity). The Company is engaged in the management of the Ricoh Arena. Arrangements for the governance of the Company are set out in the Articles and Memorandum of Association of the Company and also the joint venture agreement between NCH Limited and the Company. The Company has appointed Deloitte & Touche as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31<sup>st</sup> May 2006.

#### **4. Review of effectiveness**

Coventry City Council is responsible for conducting, at least annually, a review of the effectiveness of its internal control system. The review of the effectiveness of internal control is informed by the work of the internal auditors and directors within the Council who have responsibility for the development and maintenance of the internal control environment, and also by reviews undertaken by the Council's external auditors and other review agencies and inspectorates.

The review is informed by:

- An annual assessment of the adequacy of internal controls by each director.
- The Internal Audit Service operates to a risk based audit plan, which is approved by Scrutiny Board 1 – Audit Sub Group annually. An annual report is also produced and presented to that Group. The report identifies those control issues, which in the opinion of the Internal Audit Manager, should be considered when producing the Statement on Internal Control.
- A review of the effectiveness of the Council's system of Internal Audit.
- The work plan and reports submitted to Scrutiny Board 1 – Audit Sub Group.
- Reports from the external auditors. The Annual Audit and Inspection letter for 2005-06 covers all the work of the Audit Commission, including the results of the Housing Inspection. This report provides an overall summary of the Audit Commission's assessment of the Council.



Confirmation by signatories to the Statement - We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority and the Scrutiny Board, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## **5. Significant internal control issues**

All significant control issues are included on the Council's corporate and directorate risk registers. These registers also include appropriate management actions to minimise the risk. The corporate register is also subject to regular review by the Council's Management Board, Cabinet and Audit Sub Group. Work is continuing to ensure robust risk management processes are fully embedded throughout the Council.

Furthermore, the Council is seeking to continuously improve its management arrangements to improve service delivery, efficiency and value for money, and achieve its objectives. Key challenges include:

- a) Ensuring the delivery of the Council's vision and corporate objectives in line with the Medium Term Financial Strategy.
- b) Working closely with partners and Government on developing a new style Local Area Agreement.
- c) To monitor enhancements in procedures covering sickness absence to assess the effectiveness of such changes.
- d) The Council's approach to delivering improved value for money is derived from its Value for Money Strategy, which was approved in 2006. The Council has developed a Value for Money self-assessment to assist the preparation of its service plans in 2007/08, and contribute to the embedding of value for money principles in its ongoing service activities. The Council will continue to develop the implementation of the Strategy with the key aim of linking together finance, performance and risk management.
- e) To further roll out embedded procedures in relation to certain areas of grants to ensure robust information and audit trails exist to support grant claims submitted by the Council.
- f) The need for systems / processes to be developed by the Council to ensure that all Coventry Schools comply with the Financial Management Standard in Schools by March 2010.
- g) To enhance the adequacy of the internal control framework to ensure that risks associated with the security and administration of the Council's IT Systems are effectively managed.
- h) To enhance monitoring procedures in place to support the Council's (including Coventry schools) recruitment process to ensure that all appropriate pre-employment checks are completed prior to employees commencing work.