# BURY METROPOLITAN BOROUGH COUNCIL

# STATEMENT ON INTERNAL CONTROL 2004/05

## 1. SCOPE OF RESPONSIBILITY

Bury MBC 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 Authority 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 authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

## 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. The system of internal control 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 Bury MBC for the year ended 31 March 2005, and up to the date of approval of the annual accounts.

## 3. THE INTERNAL CONTROL ENVIRONMENT

Bury MBC has a sound control environment of which the key elements are shown below.  A file of supporting evidence has been collated and reviewed by the SIC Challenge Panel.  The key elements of the control environment are:

**Establishing and monitoring the achievement of the authority's objectives**
- The Council has adopted a Constitution that sets out the Council's Policy Framework and 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.

- The Constitution encompasses Standing Orders, Financial Regulations and the Scheme of Delegated Powers, together with Codes of Conduct for both Members and employees. The Constitution is regularly reviewed and updated, and is available on the Council Website and Intranet.
- The Council has adopted a Local Code of Corporate Governance, reflecting the framework produced by CIPFA/SOLACE. The key elements of the Code are overseen by the Standards Committee and training on corporate governance has been provided to Council Members. The Code has been incorporated into the authority's Anti-Fraud and Corruption Strategy which takes a strong line on fraud issues, and also includes sections covering Confidential Reporting (Whistle-blowing), Benefit Fraud Prosecutions, Guidance for Members attending outside bodies, and Standards of Conduct for officers and Members.
- Well established procedures are in place for setting and monitoring the authority's objectives, and the Council has a well developed and clearly understood policy and decision making process. Priorities and longer-term ambitions are thoroughly re-examined each year by key Members and officers at a Strategic Forward Planning Event. In July 2005 this will also include representatives from key partner agencies drawn from the Local Strategic Partnership.
- Priorities and ambitions form the basis of the Community Strategy, and the authority's Corporate Plan, and also play a major role in the resource allocation process. The Council operates a Priority-led budgeting process which aims to direct revenue and capital resources towards strategic priorities. A Capital Programme Strategy Group has been established to oversee the development of this process in respect of capital resources and a Priority Investment Reserve has been established to facilitate the reallocation of revenue resources with effect from 2005/06 onwards.
- Statutory obligations, priorities, ambitions and service priorities are encapsulated into Service Plans that are produced on an annual basis by each Council Department.
- Objectives, ambitions and priorities are communicated throughout the community and the Council via the web-site, posters placed in public buildings, press releases and the Best Value Performance Plan
- Progress towards the achievement of the objectives is monitored at quarterly dedicated meetings of the Executive and through the performance management framework.


**The facilitation of policy and decision making**
- The full Council meets approximately every 12 weeks and the Executive meets every 3 weeks to consider the strategic plans and policies of the authority. In addition the Council has two regulatory committees - Planning Control Committee and Licensing and Safety Committee. A Schools Forum and a Schools Organisation Committee are also in existence.
- As set out above, the formal decision making process is underpinned by a Scheme of Delegated Powers and Codes of Conduct.

- The authority also operates 3 outward looking Scrutiny Commissions (Healthier and Safer Communities, Learning Communities and Economy, Environment and Transport) that are charged with policy development and review and the scrutiny of decisions taken by the Executive and 2 inward looking Scrutiny Panels (Resource and Performance Management) that focus on the use of resources and performance (this structure was amended from May 2005 to become 4 Commissions and 1 Panel). The Commissions/Panels each had/have a structured work programme
- To facilitate corporate governance, the authority has a Standards Committee and an Audit Committee, both of which include independent members
- All meetings are open to the public and every meeting makes provision for a "Public Question Time" session
- Agendas, reports, minutes and the Forward Plan are publicly available on the Council's web-site
- Six Area Boards have been established to act as a two-way channel between the formal decision-making process of the Council and local communities. As well as being a local forum, Area Board advise on service levels and are able to expend limited sums of money to support social, educational, recreational and environmental projects within their locality.

**Ensuring compliance with established policies, procedures, laws and regulations**
- The Council's Director of Legal & Democratic Services is designated as "Monitoring Officer". It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.
- The financial management of the authority is conducted in accordance with the Financial Regulations set out in the Constitution
- The Director of Finance and E-Government, as the Council's Chief Finance Officer, has responsibility for the legality of the Council's financial transactions
- The Council has an Internal Audit function which operates to the standards set out in the CIPFA guidance for Internal Audit in Local Government. The Head of Audit and Risk Management reports impartially and in his own name on the adequacy and effectiveness of the Council's internal control environment. The scope of Internal Audit covers all Council activities and Internal Audit has unrestricted access to all Council personnel, records and assets in order to conduct its business.
- The Council has a well established Audit Committee which monitors and evaluates the Council's internal control arrangements and considers all external audit reports. Copies of all internal audit reports are provided to Members of the Committee (and to other senior Members and officers) and the Committee has the opportunity to question the Head of Audit and Risk Management on any matters raised in reports and service responses.
- The Council is subject to external audit by the Audit Commission and external inspection and review by a number of agencies. The Council has a positive and constructive approach to the reports and recommendations made by these agencies and regular meetings are held between the auditor and the Management Board. The auditor also attends the Audit Committee.

- The Council has various corporate strategies in place to support compliance with policies and procedures. These strategies cover ICT, Human Resources, Procurement, Health and Safety and Complaints.
- Compliance with established policies, procedures, laws and regulations is carefully monitored. Every Council report produced has a section which must consider a range of implications, including financial, legal, risk etc., and additionally, must contain statements by the Monitoring Officer and the Director of Finance and E Government, to ensure that all legal and financial issues are fully considered, and that Members are advised accordingly.

**Identifying, assessing and managing the risks to the authority's objectives**
- The authority has adopted a detailed Risk Management Policy and Strategy, incorporating a "live" action plan which aims to continuously improve the approach to risk management within the authority
- The Executive Member for Quality Council and the Director of Finance and E Government have been nominated as member and officer Risk Management Champions respectively.
- Each Council department has appointed a lead officer for Risk Management.
- A Risk Management Group has been established, chaired by the Director of Finance and E-Government, which includes senior representatives from all key service areas. The authority's insurers and insurance brokers also have representatives on the Group.
- All members of the Group have been provided with accredited training on risk management. Awareness training has also been provided to officers and Council Members.
- Strategic and departmental risk registers have been compiled using a corporate approach based on the Zurich Municipal STORM process. The risk registers are to be reviewed in August 2005. Actions to mitigate key risks are reflected in departmental Service Plans.
- A Risk Management Report is prepared annually by the Risk Management Group for consideration by the Resource Scrutiny Panel and the Management Board
- Specific sections for setting out risk issues are contained in Executive and Management Board reports
- The authority has developed a local Project Management Methodology (based on the principles of Prince2) and a risk assessment of each project forms a key element of the Project Initiation Document template
- Business Continuity Plans are currently being prepared with assistance from the authority's insurers and brokers. The BCP will align closely with the authority's Emergency Plan and will be thoroughly tested as part of the preparation process. It is expected that the BCP will be placed before the Executive in September 2005.
- A comprehensive review of these arrangements has been conducted by the Audit Commission during the year. This concluded that "the Council has developed solid foundations and is implementing its strategic approach to risk management. Departments are actively involved in identifying corporate and departmental risks"

**Ensuring best value and continuous improvement**

- This is achieved in a number of ways including reviews and inspections by the external auditor, external agencies, Internal Audit, Scrutiny Commissions and internal Project Boards
- The authority constantly seeks ways of ensuring the economical, effective and efficient use of resources and for ensuring continuous improvement in the way its functions are exercised
- All reports and developments are assessed by the Director of Finance and E Government
- The authority is actively involved in joint working with partners such as the police and the Primary Care Trust, and with other Greater Manchester councils, to explore methods of working which will improve efficiency and effectiveness
- The authority also contributes to a number of benchmarking clubs, across a range of services, that allow comparison of performance, costs and best practice
- The authority has taken a pro active approach to the e-government agenda with over 600 processes being e-enabled. At 31$^{st}$ March 2005 the authority's BVPI157 stood at 88% and is expected to reach 100% by December 2005. The authority is also on target to meet the Priority Outcomes and is investing in state-of-the-art business systems such as HR/Payroll, financial management, revenues and benefits and customer contact. The authority is using the e-government agenda to drive forward improvements in transactional efficiencies
- The authority is committed to modernising its procurement processes. It has undergone an Improvement and Development Agency procurement health-check and has developed links with the Regional Centre for Excellence. An e-tendering model is being developed and the authority has made use of the Egan principles to procure building maintenance services
- The authority is committed to ensuring services are delivered by individuals with the capacity and skills to enable continuous improvement. Bury was recently awarded corporate Investors in People status and an in-house capacity building programme has seen 150 managers assessed against the Audit Commission's 'performance Breakthrough' model
- The authority has responded positively to the 'Gershon' agenda and the Forward Look Annual Efficiency Statement for 2005/06 demonstrated that the authority has identified efficiency savings totalling £3.866m
- A corporate Asset Management Plan (AMP) exists that received the highest possible rating from ODPM. This is underpinned by service based AMPs and by a dedicated IT system that will link into the new financial management system that is currently being installed.


**The financial management of the authority and the reporting of financial management**

- The Council has designated the Director of Finance and E-Government as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972

- The financial management of the authority is conducted in accordance with the Financial Regulations set out in the Constitution
- Sound procedures are in place covering the financial management of the authority and the reporting of financial management information. This is now incorporated into the Planning and Performance Cycle. The authority has a Medium Term Financial Strategy and produces rolling 3-year budget forecasts, based on the assumptions set out in the MTFS. Each main service Department has also produced a MTFS setting out resources, pressures, budget allocations and plans for addressing any budget 'hot spots'
- The authority is currently implementing a modern financial management system which will link into other key business systems and which will act as a catalyst for, amongst other things, improved procurement processes
- The authority operates a scheme of delegated budgets supported by professional corporate and departmental finance functions. These are underpinned by protocols setting out the responsibilities and lines of reporting for departmental finance staff
- Regular revenue, capital and HRA budget monitoring, indicating actual expenditure and full year forecasts, is undertaken and reported to service management teams, the Management Board, the Executive and the Resource Scrutiny Panel on a quarterly basis. These reports identify reasons for variances and set out corrective action that is proposed. Summary monitoring reports are also prepared monthly and submitted to Directors and key Members.
- A Project Board has been established to monitor Social Services' spending and to oversee the implementation of corrective action.
- Treasury Management is conducted in accordance with a Treasury Management Annual Strategy and Plan, and borrowing is in accordance with the Prudential Code. The authority has responded pro-actively to the Prudential Code and prudential indicators are reported quarterly to Members and the Management Board. The authority has developed a policy setting out the conditions under which prudential borrowing can be utilised

**The performance management of the authority and the reporting of performance management**
- The Council has a comprehensive Planning and Performance Framework which, coupled with its Best Value Performance Plan, helps to secure continuous improvement in the way in which our functions are exercised.
- The authority focuses on the monitoring of 52 'Priority' performance indicators (PIs). These include key corporate health PIs, service critical PIs and local high risk PIs
- A well established corporate Performance team operates under the direction of the Deputy Chief Executive
- A Local Public Service Agreement has been negotiated with ODPM and progress towards the targets is monitored on a bi-annual basis
- The authority has established a Performance Management Scrutiny panel which receives regular reports on performance against targets
- Other external monitoring of performance takes place through the various audit and inspection regimes

- Senior managers at the authority are kept up to date at regular Performance Managers' Workshops and Chief Executive's Briefing Sessions
- Several services have obtained Quality Assurance accreditation


## 4. REVIEW OF EFFECTIVENESS

Bury MBC has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of Internal Audit and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the Council's external auditors and other review agencies and inspectorates.

The process of maintaining and reviewing the effectiveness of the system of internal control includes the following measures and actions:

- The Council, have adopted a Planning and Performance Framework, and carry out a programme of monitoring which runs throughout its annual cycle. This includes: monthly scrutiny of all budgets; bi-annual monitoring of Service Plans; quarterly monitoring of Best Value Performance Indicators/Local Public Service Agreement (BVPIs/LPSA); and bi-annual monitoring of the Corporate Plan. Internal Audit reviews the effectiveness of the data collection processes that underpin the internal and external reporting of BVPIs. Each summer the lead Members and officers hold a Strategic Forward Planning Event, in order to review performance and re-define corporate objectives and ambitions.

- Internal arrangements for the control of performance are leading to better results. The Annual Audit and Inspection Letter (2004) highlighted 57% of PIs improving with 59% in the top half nationally. The report also stated (p.5) that the "sound preparation systems for BVPIs is notable and a major improvement during the last two years." Subject to audit, 2004/05 BVPIs show a continued improvement in service output although the rate of improvement is slowing as more indicators reach their ceiling level. In CPA terms, service scores rose in 2004 by 7 points (on top of a 10 point rise the year before - equating to a 50% increase in service scores since 2002). A Corporate Assessment in 2004 saw the corporate performance score increase by some 21%. Performance is also leading to better outcomes as reflected in higher recycling rates, modernised services for older people (including more emphasis on home care, reduced hospital discharges), reduced crime levels and excellent education results.

- The Executive carries out functions which are not the responsibility of any other part of the authority. Several members of the Executive are assigned portfolio areas, and are assisted by non Executive Members who are appointed Lead Member status for particular areas of responsibility. This allows the Executive to monitor the activities of the authority.

- There is a well established Overview and Scrutiny function which has been revised and updated in the light of experience. Scrutiny Panels (internal focus) and Commissions (policy development) review the work of the Council throughout the year and also report annually to Council.

- The Executive Directors have each reviewed the operation of key controls throughout the Council, from the perspective of their own directorates, using a detailed checklist. They have provided a signed assurance statement and identified any weaknesses or reservations for inclusion in an improvement programme which will form the basis of an action plan to this report.

- The Monitoring Officer carries out a continuous review of all legal and ethical matters, receiving copies of all agendas, minutes, reports and associated papers, commenting when necessary, or taking appropriate action, should it be required. The Monitoring Officer is also responsible for monitoring the Local Code of Corporate Governance.

- The Director of Finance and E Government prepares a Risk Management Annual Report reviewing activities and progress for the year, and also reviews the Local Code of Corporate Governance.

- The Standards Committee is responsible for standards and probity, and receives regular reports from the Monitoring Officer.

- The Audit Committee carries out an overview of the activities of the Council's internal and external audit functions. Members are provided with copies of all reports produced by Internal Audit and by the Audit Commission. They approve the annual plans for each, and receive regular progress reports throughout the year. The Head of Audit and Risk Management submits to them an Annual Report and Opinion, and the external auditor (Audit Commission) submits an Audit and Inspection Annual Letter.

- The Internal Audit service is a directly employed in-house service, providing a continuous review in accordance with the Council's obligations under the Local Government Act 1972, and the Accounts and Audit Regulations 2003. It operates under the APB (Auditing Practices Board) Guidelines and CIPFA Code of Practice for Internal Audit in Local Government, as approved by the Audit Committee.

- The Council's external auditors (the Audit Commission) review the activities of the Council and approve the annual accounts. Conclusions and significant issues arising are reported in their Annual Audit and Inspection Letter.

The Audit Committee has been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## 5. SIGNIFICANT INTERNAL CONTROL ISSUES

The Effectiveness statement set out in section 4 above demonstrates that the Control Environment described in section 3 is operating effectively. Further evidence to support this conclusion comes from:

- The Annual Report and Opinion by the Head of Audit and Risk Management stated "The effectiveness and security of local authority systems and controls are underpinned by the overall control framework. At Bury this is considered to be sound…"

- The Audit and Inspection Annual Letter by the District Auditor and Relationship Manager stated "Bury has developed and maintained sound systems of internal financial control. The quality of the work of Internal Audit is good."

No significant internal control issues have been identified, and based on the various assurances given, satisfactory corporate governance arrangements are deemed to be in place and working effectively.

However, it is recognised that significant overspendings have occurred within the Education and Social Services' budgets during 2004/05 and these have placed pressure on the authority's overall budget strategy for 2005/06. The overspendings were identified at an early stage as a result of the effective budget monitoring procedures that are in place and this allowed corrective action to be put in place and also gave the authority the opportunity to address the situation when setting the budget for 2005/06. A Project Board has been established to review the situation and to drive forward future corrective action.

In order to ensure continuous improvement of the control environment the following actions are deemed to be the authority's immediate priorities:

- Take the development of the Risk Management function to the next stage, including a review of the Policy and Strategy, a refresh of corporate and departmental risk registers and an extension of training to lower tiers of management.

- Complete Business Continuity Plans and put in place arrangements to allow the authority to respond pro actively to the Civil Contingencies Act.

- Introduce an annual Monitoring Officer's report which will incorporate a review of the Local Code of Corporate Governance.

- Strengthen the arrangements to monitor the Children's Services budget and improve financial monitoring information generally (linked to the introduction of the new financial management system).

- Continue to give high priority to ensuring that the new business systems operate within an effective control framework.

- Review the Council Constitution in the light of changing circumstances such as the introduction of Sixtown Housing, an Arms Length Housing Organisation, and the establishment of Askbury, a joint venture company, and undertake an effective awareness raising process at Member, officer and partner level.

- Develop a Long Term Financial Strategy looking ahead and identifying financial issues covering the coming 10 years

Detailed action plans will be prepared to support each of these issues and these will be incorporated into individual Service Plans and progress will be monitored in line with the corporate performance monitoring process.

The SIC itself, and progress on the actions set out above will also be reviewed and monitored by the Management Board and the Audit Committee on a quarterly basis.

Signed:

Chief Executive     *Malk Sanders*     Date   19 July 2005

Council Leader     *W Campbell.*     Date   19 July 2005