

Audit Committee – 11 September 2007

STATEMENT ON INTERNAL CONTROL FOR SOUTH HAMS DISTRICT COUNCIL

Report of the Strategic Director (Resources) and the Monitoring Officer

Statutory Powers: Section 111 Local Government Act 1972; and
Accounts and Audit Regulations 2003.

Financial Implications: None: within existing budgets.

Purpose

1. The purpose of this report is to provide Members with sufficient information to allow them to:
 - Independently examine the draft Statement on Internal Control and the supporting evidence; and
 - Recommend approval of the Statement on Internal Control to the Council.

Link to ‘Aim and Priorities’: CP6: Improve core service performance in a cost-effective way.

Recommendations

It is recommended that members consider the draft Statement on Internal Control and supporting evidence provided by this report and recommend approval of the Statement on Internal Control to the Council.

Background

Introduction

1. The Accounts and Audit Regulations 2003 introduced a new section requiring every local authority, police authority and fire authority in England to publish a ‘Statement on Internal Control’ and comply by 1st April 2003.
2. Regulation 4(1) of the Regulations state that ‘The relevant body (South Hams District Council), shall be responsible for ensuring that financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk’.

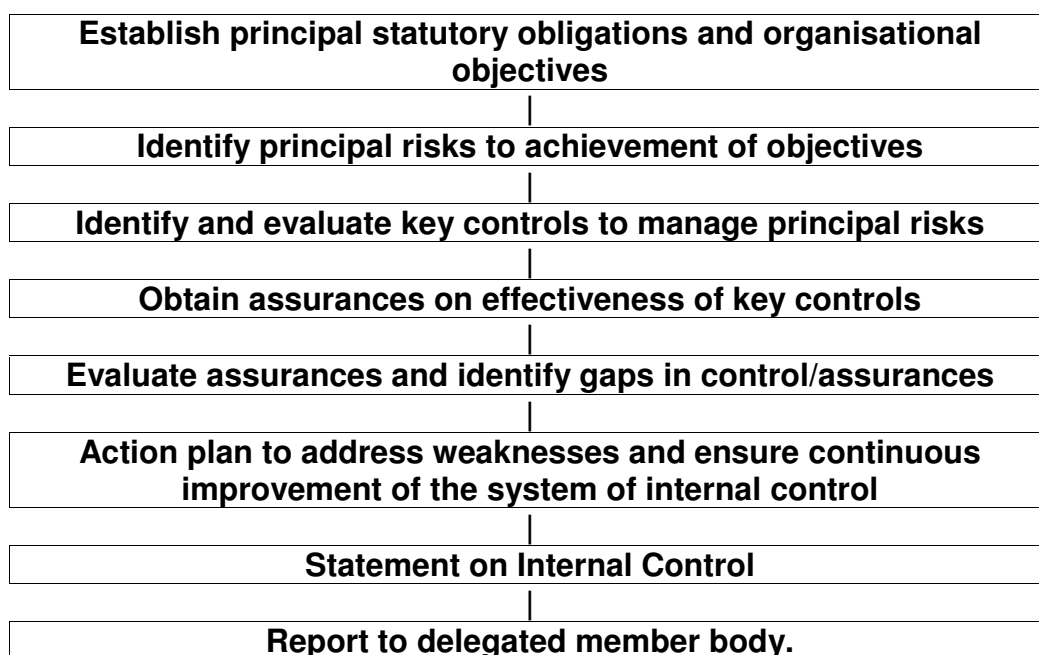
3. Regulation 4(2) goes on to state that ‘The relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices’ with any relevant financial statements the body is required to publish.
4. The intention of the then Office of the Deputy Prime Minister’s (ODPM) in revising the Accounts and Audit Regulations was to improve local authority corporate governance and accountability.

Guidance

5. The process is based on the guidance issue by CIPFA and the Audit Commission.
6. The System of Internal Control (SIC), and the linked Risk Management and Corporate Governance processes, formed a significant part of the Corporate Performance Assessment (CPA) Use of Resources self assessment checklist. At Level 4 the Council was required to show that:
 - The assurance framework is fully embedded in the Council’s business processes; and
 - The Council can demonstrate corporate involvement in/ownership of the process for preparing SIC.

Process

7. The guidance sets out the key stages for the review of internal control and the SIC assurance gathering process as follows:



Responsibilities

8. The guidance sets out the responsibilities as follows:

Responsibility	Responsible Party
<ul style="list-style-type: none"> • Maintain a system of internal control. • Review system of internal control annually. • Evaluate assurance and conclude as to the independence and objectivity of the various sources of assurance before coming to an overall conclusion. This can be delegated to an appropriate member body, although approval remains with the Council on the recommendation. 	<p style="text-align: center;">‘The Relevant Body’ - South Hams District Council</p>
<ul style="list-style-type: none"> • Provide assurance through routine monitoring of internal controls as an integral part of the risk management process. • Regularly report on the operation of internal controls to elected members through the appropriate corporate management team. 	<p style="text-align: center;">Directors and Managers</p>
<ul style="list-style-type: none"> • These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective. 	<p style="text-align: center;">S151 and Monitoring Officers</p>
<ul style="list-style-type: none"> • Review the effectiveness of internal audit and include the results in the Statement on Internal Control; • Subject to complying with the Code of Practice for Internal Audit in Local Government, provide independent and objective assurance across the whole range of the Council’s activities. • The annual internal audit report to the Council (Audit Committee) to include an opinion on the overall adequacy and effectiveness of the internal control environment, providing details of any weaknesses that qualify this opinion and issues relevant to the preparation of the Statement on Internal Control. 	<p style="text-align: center;">Internal Audit Manager</p>
<ul style="list-style-type: none"> • Review the Statement at an early stage. 	<p style="text-align: center;">Head of Finance</p>
<ul style="list-style-type: none"> • Approve SIC, if satisfied that it has obtained relevant and reliable evidence to support the disclosures. Consider the reviews of the S151 and Monitoring Officer on issues covered by statutory responsibilities. Recommend approval to the Council. 	<p style="text-align: center;">Council or Delegated Member Body (Audit Committee)</p>
<ul style="list-style-type: none"> • Following the recommendation by the Delegated Member Body to approve, sign the Statement on Internal Control. 	<p style="text-align: center;">Leader and Chief Executive (as most senior member and officer)</p>
<ul style="list-style-type: none"> • Publish the Statement on Internal Control with the Council’s financial statements. 	<p style="text-align: center;">Strategic Director (Resources)</p>

9. The extract from the CIPFA Finance Advisory Network guidance (Appendix A) sets out a suggested framework for the SIC and the assurance gathering process.

Assurance for the SIC to be Considered by the Audit Committee

10. The following paragraphs summarise the assurance provided by the various sources as set out in the framework at Appendix A.

Internal Audit

11. A report has been presented to the Audit Committee at the June 2007 meeting summarising the activities and key findings of Internal Audit.
12. In this report the Internal Audit Manager gave his 'Opinion on Adequacy of Internal Control'.
13. He concluded that the Council's overall control environment is adequate and effective for the purposes of the SIC. This opinion is based on the work done on the risk based annual audit plan for 2006/07, which was approved by Scrutiny in April 2006.
14. The Internal Audit Manager also reviewed the effectiveness of the internal audit service against the standards set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government, as this is cited as proper practice in relation to Internal Audit. The results have been included in the Statement as required.

Statutory Officers

S151 Officer

15. As required by the guidance, the S151 Officer has provided signed assurance that the systems and procedures of internal control were in operation and effective in 2006/07.
16. The S151 Officer statement covered:
 - Financial Regulations and Contract Standing Orders;
 - Treasury Management;
 - Anti Fraud and Corruption Strategy;
 - Internal Audit;
 - Corporate Governance; and
 - Risk Management.

17. The S.151 Officer raised the following significant issue:

The Council is embarking on a programme of shared service with Teignbridge District and West Devon Borough Councils. To ensure that this project is successful an action plan will need to be established, together with the relevant cost saving/sharing protocols and suitable governance arrangements.

Monitoring Officer

18. As required by the guidance, the Monitoring Officer has provided signed assurance that the systems and procedures of internal control were in operation and effective in 2006/07.

19. The Monitoring Officer's statement covered:

- Responsibilities for statutory obligations are formally established;
- Record held of statutory obligations;
- Effective procedures to identify, evaluate, communicate, implement, and comply with monitor legislative change exists and are used;
- Committee charged with governance responsibilities;
- A whistle blowing policy in place which has been formally approved, regularly reviewed and widely communicated to all relevant staff;
- There are codes of conduct in place which have been formally approved and widely communicated to all relevant staff;
- A register of interests is maintained, regularly updated and reviewed; and
- Where a scheme of delegation has been drawn up, it has been formally approved and communicated to all relevant staff.

20. The Monitoring Officer did not raise any significant issues other than those already raised by other senior managers.

Heads of Service (Managers)

21. Heads of Service have recorded their service functions, obligations and improvement objectives, and risks to achieving these objectives in a 'Service Plan'.

22. Their service plan allowed service objectives and long term improvement objectives to be separated. It also enabled service objectives to be formally linked to risk and included controls to mitigate the risks.

23. The risk element of the Service Plans feed the Council's operational risk register maintained by the Risk Management Group.

24. An element of this Service Planning round requires managers to carry out an assessment of the controls in place to mitigate the risks, and provide the management group drafting the SIC with assurance and evidence that controls were in place and operating satisfactorily.
25. All Heads of Service signed the assurance statement at Appendix B, which includes the identification of significant areas of weakness or issues that may impact on internal control.
26. The following paragraphs summarise the issues raised and are referenced to the related Background Paper that provides members with more details of the objectives, risks, controls and assessment evidence identified:

Business Development (Background Paper A)

27. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

Community Regeneration (Background Paper B)

28. Delivery of the Sherford New Community is a high risk project. The Council is seeking to minimise the risks through: the appointment of external legal advisers; and, through the S.106 Agreement and other legal agreements.
A specific risk is that the Area Action Plan (AAP), while found to be sound through independent examination, may be challenged by a developer who has publicly stated through an examination process that the Council has made procedural errors. The Inspector has not agreed but the risk remains.
A team of dedicated officers continues to work on the project in partnership with Plymouth City and Devon County Councils.

Corporate Services (Background Paper C)

29. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

Customer Services (Background Paper D)

30. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

Environmental Health (Background Paper E)

31. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

Financial Services (Background Paper F)

32. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

ICT (Background Paper G)

33. The Head of ICT did not raise any significant issues other than those already raised by other senior managers.

Improvement (Background Paper H)

34. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

Landscape and Leisure (Background Paper I)

35. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

Operations (Background Paper J)

36. A new waste collection methodology and related working practices were introduced and highlighted a number of areas of concern that also resulted in an overspend on the operational budget.
The situation is being addressed by a working group which will oversee the project to reorganise the collection rounds in a more efficient and cost effective manner.

Personnel and Payroll (Background Paper K)

37. The Council is at risk if the services of some key officers were lost to it. There has been difficulty retaining and recruiting the appropriate staff in certain critical areas e.g. Planning, Housing and Personnel.

The Council is undergoing a Single Status review, following a legally binding agreement between the Management and Trade Unions of the National Joint Council.

It is essentially about the harmonisation of the terms and conditions on which different Council staff are employed, to ensure that they are both fair and non-discriminatory.

The process includes job evaluation and a review of related policies and is ongoing.

Planning and Building Control (Background Paper L)

38. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

Property Services (Background Paper M)

39. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

Harbour and Maritime (Background Paper N)

40. No significant weaknesses or issues have been identified for inclusion in the Statement on Internal Control.

Performance Management

41. Mechanisms are in place to establish corporate objectives:
- Consultation with stakeholders on priorities and objectives;
 - The Council's priorities and objectives have been agreed and communicated to all staff; and
 - Objectives are reflected in departmental plans and matched with associated budgets;
42. Performance management arrangements are in place:
- Effective performance management systems operate routinely;
 - Key performance indicators are established and monitored; and
 - The Council knows how it is performing against its planned outcomes;
 - Performance achieved is used to support decisions and drive improvements; and
 - Performance management is continuously improved.

Corporate Governance

43. The Council's Code of Corporate Governance was adopted by the Executive at the meeting of December 2003.
44. A formal review of the Council's Code of Corporate Governance is undertaken annually and the results reported to the Audit Committee in June 2007.
45. No significant issues were raised following the 2006/07 review.

Risk Management Group

46. Progress has been made on improving the Council's risk management process:
- Risk Management (RM) Strategy and Strategic Risk register updated and approved by the Executive;

- RM Member Champion appointed;
 - Risk workshops undertaken;
 - Risk registers maintained, including for operational risks, and have been loaded into the performance management system;
 - A process developed for updating the risk registers with emerging risks;
 - Regular meetings of the Risk Management Group quarterly, and increasing the Group's membership to include relevant officers;
 - Risk assessment included in all reports to members;
 - Training for members and officers;
 - RM approach linked to SIC; and
 - RM progress monitored to Scrutiny on a quarterly basis.
47. For 2006/07 risks relating to the Sherford New Community were identified at a risk workshop and are the only issues to be raised for the Statement on Internal Control. They have also been highlighted by the Head of Community Regeneration. Improvements to RM of a less significant nature continue to be made.

External Audit and other Inspections

48. The External Auditor also contributes to the assurance for the Statement on Internal Control through their:
- Joint Audit and Inspection Letter to Scrutiny March 2007 – relating to 2005/06. The 2006/07 equivalent is due later in the year; and
 - Audit opinion – Statement of Accounts 2005/06. The 2006/07 equivalent is due later in the year.
 - Joint Audit and Inspection Plan 2006/07 – presented to officers and members (Scrutiny June 2006); and
 - Interim audit report 2006/07 – presented to Scrutiny in April 2007.
49. The reports did not raise any significant issues for 2006/07 other than those already raised by the Council's senior managers.

The Statement on Internal Control (Appendix C)

50. The statement is a corporate document and is owned by all senior officers and members of the Council as discussed above.
51. A draft SIC for 2006/07 appears at Appendix C to this report, based on the pro-forma statement supplied in the guidance. The statement includes an action plan to address any significant internal control issues, which has been completed from the System of internal Control assessments outlined above and Background Papers A to N.
52. The guidance states that these practices need to take place throughout the period under review.

Risk Assessment

Risk	Mitigation
<p>Risk that the Council does not have the system in place to produce a meaningful Statement on Internal Control, to be included in the accounts; or</p> <p>That the process does not satisfy the requirements under the Accounts and Audit Regulations 2003 or the highest levels of the relevant Corporate Performance Assessment (CPA) self assessment checklist.</p>	<p>Statement on Internal Control completed through the System of Internal Control in line with all the relevant national guidance, and subject to review by the external auditor.</p>
<p>Senior managers may be unable to demonstrate that they have set their service objectives linked to those of the Council, identified the risks to achieving these service objectives and assessed the controls in place to mitigate the risks.</p>	<p>Service planning guidance reminds managers that the service plan process is the basis for the System of Internal Control supported by a formal assessment of controls, with evidence of their satisfactory operation.</p>
<p>Risk that the Council cannot readily demonstrate that the policies, processes, tasks, behaviours and other aspects of the Council, taken together:</p> <ul style="list-style-type: none"> • Facilitate effective and efficient operation by enabling an appropriate response to significant business, operational, financial, compliance and other risks to achieving the Council's objectives (including the safeguarding of assets from inappropriate use, loss or fraud, and ensuring that liabilities are identified and managed); • Help ensure the quality of internal and external reporting; and • Help ensure compliance with applicable laws and regulations, and internal policies with respect to the conduct of business. 	<p>Encompassed in the System of Internal Control.</p>

Conclusion

53. The Statement on Internal Control is a requirement under the Accounts and Audit Regulations 2003 and will be the subject of review by the Council's external auditor.

54. Production and publication are the final stages of an ongoing review of the internal control and not activities that can be planned in isolation. The guidance says that compilation of the of a SIC involves the Council in:
- Reviewing the adequacy of its governance arrangements;
 - Knowing where it needs to improve those arrangements; and
 - Communicating to users and stakeholders how better governance leads to better quality public services.
55. The Statement will appear in the Council's annual financial statements and will provide a public confirmation that this Council has 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.

Allan Goodman
Internal Audit Manager

Audit Committee
11 September 2007

Kevin Williams
Monitoring Officer

Mark Seymour
Strategic Director (Resources)

Report Appendices

Appendix A – Framework for the System of Internal Control
Appendix B – Assurance Statement Signed by Heads of Service
Appendix C – The Statement on Internal Control

Summary of Heads of Service Assurance and Evidence

Background Paper A – Business Development
Background Paper B – Community Regeneration
Background Paper C – Corporate Services
Background Paper D – Customer Services
Background Paper E – Environmental Health
Background Paper F – Financial Services
Background Paper G – ICT
Background Paper H – Improvement
Background Paper I – Landscape and Leisure
Background Paper J – Operations
Background Paper K – Personnel and Payroll
Background Paper L – Planning and Building Control
Background Paper M – Property Services
Background Paper N – Harbour and Maritime

Background Documents

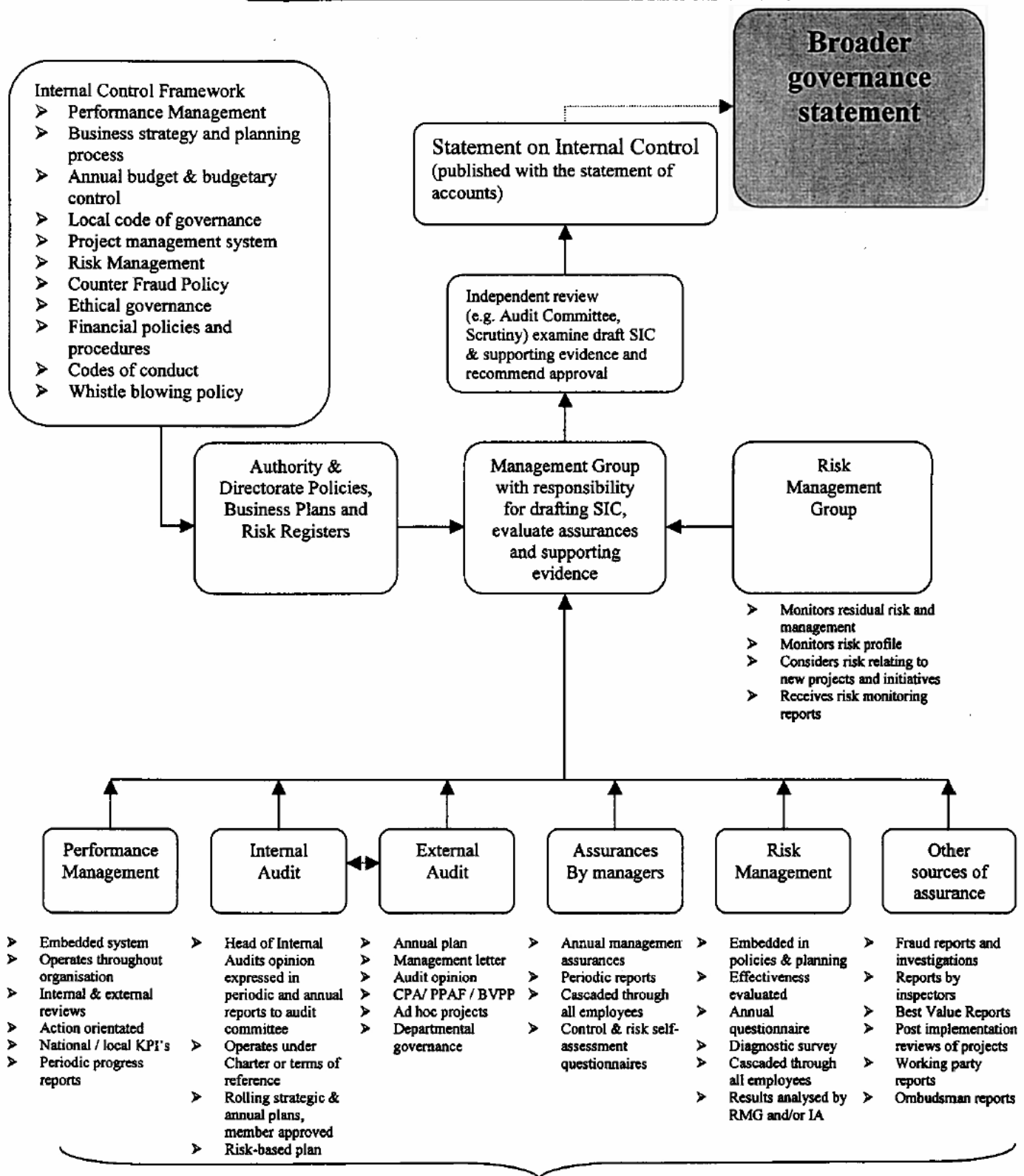
Local Code of Corporate Governance for South Hams District Council

Corporate Governance: A Framework for Public Service Bodies: CIPFA (1995)

Accountability : A Framework for Public Services: CIPFA (1998)

Corporate Governance in Local Government: A Keystone for Community Governance: CIPFA (2001)

Proposed Framework for the Statement on Internal Control



*The above examples could provide assurance on the adequacy and effectiveness of controls over key risks
(Each authority to determine respective priorities)*

**South Hams District Council
System of Internal Control (SIC)
Assurances by Heads of Service**

Head of Service (Name):.....

Title:.....

Background

South Hams District Council is required to publish an annual Statement on Internal Control (SIC). This is based on the System of Internal Control, which requires the Heads of Service to set objectives for their services, identify risks against achievement of those objectives and routinely monitor and review the internal controls in place to mitigate the risks.

Certificate

I acknowledge that the development and maintenance of effective internal control to provide reasonable assurance of the achievement of service objectives are amongst my managerial responsibilities.

<p>I am able to confirm that for the period 1st April 2006 to 31st March 2007:</p> <p><i>Objectives</i></p> <p>1. The statutory obligations and service objectives for which I am responsible for achieving have been clearly defined in my Service Plan in March 2007.</p> <p><i>Risks to Objectives</i></p> <p>2. In the same Service Plan, I have identified the risks to achieving these service objectives and the controls to mitigate the risks.</p> <p>3. I have evaluated the effect of any significant changes which have been made during the year to this service in terms of risks likely to arise from such change and have arranged for the Council's risk register to be updated accordingly.</p> <p>4. I have reviewed the content of the current risk register in respect of this service and made changes as necessary recognizing evolving risks and/or internal controls that require strengthening or review.</p> <p><i>Controls to Mitigate Risks</i></p> <p>5. I have carried out an assessment of the internal controls to mitigate the risks to my service objectives controls and consider that throughout 2006/2007 has been adequate to enable me to provide reasonable assurance of their effective and efficient operation in all material respects throughout this period. <i>Significant weaknesses and action needed to improve the internal controls are detailed below.</i></p> <p>6. This statement is supported by evidence of my assessment.</p> <p>7. Where I am relying upon the work of internal audit, external audit or any other review agency (internal or external) as part of my assessment, I can confirm that agreed actions arising from feedback have been, or are in the process of being carried out.</p>	<p>Confirmed (please tick)</p>
<p>Significant weaknesses and action needed to improve the internal controls, which may be taken to the Statement on Internal Control (continue overleaf if necessary):</p>	

Signed:..... **Date:**.....

SOUTH HAMS DISTRICT COUNCIL

STATEMENT ON INTERNAL CONTROL 2006/07

1. SCOPE OF RESPONSIBILITY

South Hams District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. South Hams District Council 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, South Hams District Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of South Hams District 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 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 South Hams District Council's policies, aims and objectives; 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 South Hams District 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 key elements of the internal control environment include:

The Council's Objectives

The Council has established its Aim, Priorities and Commitments and these are published annually in the Council's Performance Plan.

The Performance Plan also sets out the measures of achievement for each priority, as well as the progress with targeted objectives.

All reports to members, and Service Plans produced annually by managers, link service priorities to the overall objectives of the Council. The officer appraisal process disseminates these priorities into personal objectives and targets.

Policy and Decision Making

Policy and decision making is facilitated by the following:

- Delegation of powers to specific member bodies in the Council's Constitution;
- The stating of member and officer roles within the Constitution;
- National and local Codes of Conduct for Members and Officers;
- A formally adopted Scheme of Delegation to named officers;
- A Policy Panel made up of the Chairs of the Policy Development Group and Scrutiny, as well as the Leader of the Council, reviews policies and produces the Council's Policy Development and Review Programme. The Programme sets out, for each policy, details of the Member Group to review or develop the policy and the approval required; and
- The principles of decision making are set out in the Council's Constitution.

Compliance with Established Policies

Compliance with established policies, procedures, laws and regulations is the responsibility of all officers and members.

Ensuring that established policies, procedures, laws and regulations are complied with is the responsibility of nominated statutory officers, the Monitoring Officer and S151 Officer, as laid down in the Council's Constitution.

The Council has also adopted a Local Code of Corporate Governance. The Code defines how the principles that underpin good governance - openness and inclusivity, accountability and integrity – are reflected in the dimensions of the Council's business, and is reviewed annually.

Risk Management

The Council has a number of mechanisms in place that help it to identify and control risk including:

- A Risk Management Strategy that defines risk and identifies the process for ongoing risk management and the responsibilities of the various stakeholders in the risk management process;
- A Risk Management Group meeting regularly, a group of officers responsible for the implementation of the strategy and provide information and training to promote RM;
- Strategic and Operational Risk Registers which list the key risks to the Council rated by likelihood and impact, loaded into the performance management system;
- A processes developed for updating the Registers with emerging risks;
- A review by the Council's insurers of the Council's approach to the identification of corporate and departmental risks;
- Identification by service managers of their key operational risks in their service plans;
- Risk management training for officers and members;
- Risk identification workshops undertaken for key projects; and
- A risk assessment included in all reports to member bodies.

Economic, Effective and Efficient Use of Resources

The Council ensures that its resources are utilised in the most effective, efficient and economic manner in order to deliver continuous improvement in all functions through:

- A programme of service reviews and updates, which look closely at and challenge service provision and delivery and discharges the Government's Best Value requirements for the Council, compares with the performance of the best, consults with those who have an interest and ensures competitiveness in all aspects;
- Annual planning and review of services by service teams; and
- Self assessment – using the Use of Resources checklist supplied by the Audit Commission.

Financial Management

The financial management of the authority and the reporting of financial management include:

- Comprehensive budgeting systems set targets to measure financial performance;
- A medium-term financial plan covering both revenue and capital spend which provides a framework for the planning and monitoring of resource requirements;
- Annual budget setting process involving officers and members enables priorities and ambitions to be prioritised through a bids and reductions approach;
- Financial performance is reported to the Executive four times per year, and is considered regularly by the Strategic Management Team;
- Regular reports to managers and accountancy staff indicate actual expenditure against targets;
- The Council's adopted codes of practice in relation to treasury management for investments, and for capital finance and accounting (the Prudential Regime);
- Clearly defined capital expenditure guidelines (Standing Orders) and Financial Regulations that are contained within the Council's Constitution and the linked working level document. These set out the overall framework that governs the management of the Council's finances; and
- Self assessment – using the Use of Resources checklist supplied by the Audit Commission.

Performance Management

The performance management of the authority and its reporting includes:

- A range of national and local performance statistics, collected across all services, and compared with other councils using figures collected nationally by the Office of the Deputy Prime Minister. The results are published annually in the Council's Performance Plan; and
- A number of key indicators, which are collected monthly through the year, with the results reported regularly to the Strategic Management Team and members.

Internal Audit

As part of the system required to allow the Statement on Internal Control to be signed by the most senior member and officer of the Council, reviewed by the Audit Committee and approved by the Council, the head of internal audit must include an opinion of the adequacy and effectiveness of the control environment. Details of any weaknesses that qualify this opinion and issues relevant to the preparation of the SIC must also be disclosed.

The Internal Audit Manager provided an opinion for 2006/07 to the Audit Committee in June 2007 that concluded that the Council's overall control environment is adequate and effective for the purposes of the Statement on Internal Control.

The opinion is based on the work done against the annual risk based internal audit plan, which was approved by Scrutiny in April 2006.

Review of the Effectiveness of Internal Audit

In accordance with legislation, the Council must maintain an adequate and effective system of internal audit of its accounting records and system of internal control in accordance with proper internal audit practices. It is required to conduct an annual review of the effectiveness of the system of internal audit as part of its wider annual review of the effectiveness of the system of internal control.

The Internal Audit section has therefore been assessed against the standards set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government, as this is cited as proper practice in relation to Internal Audit.

The results of this review were satisfactory with the following issues highlighted for action in the financial year 2007/08:

Issue	Action
<p>The Audit Manual 2006 does not include an audit strategy, i.e. a high level statement of how internal audit will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities</p>	<p>This will be included in the forthcoming review of the Audit Manual scheduled for 2007.</p>
<p>The Internal Audit Manager has established policies and procedures in an audit manual to guide staff in performing their duties and complying with the Code. The manual was updated early in 2006 based on the 2003 CIPFA Code of Practice for Internal Audit in Local Government. The manual therefore does not reflect any changes required by CIPFA's 2006 version of the Code.</p>	<p>The Audit Manual will be reviewed in 2007 to reflect the requirements of the 2006 CIPFA Code of Practice for Internal Audit in Local Government.</p>

4. REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

South Hams District Council 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 executive managers within the Council who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control is summarised in the following table:

Responsibility	Responsible Party
<ul style="list-style-type: none"> • Maintain a system of internal control. • Review system of internal control annually. • Evaluate assurance and conclude as to the independence and objectivity of the various sources of assurance before coming to an overall conclusion. This can be delegated to an appropriate member body to recommend approval, although approval remains with the Council. • Approve the Statement on Internal Control. 	<p>'The Relevant Body' - South Hams District Council</p>
<ul style="list-style-type: none"> • Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks. • Provide assurance through routine monitoring of internal controls as an integral part of the risk management process. • Regularly report on the operation of internal controls to elected members through the appropriate corporate management team. 	<p>Directors and Managers</p>
<ul style="list-style-type: none"> • These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective. 	<p>S151 and Monitoring Officers</p>
<ul style="list-style-type: none"> • Review the effectiveness of internal audit and include the results in the Statement on Internal Control; • Subject to complying with the Code of Practice for Internal Audit in Local Government, provide independent and objective assurance across the whole range of the Council's activities. • The annual internal audit report to the Council (Audit Committee) to include an opinion on the overall adequacy and effectiveness of the internal control environment, providing details of any weaknesses that qualify this opinion and issues relevant to the preparation of the Statement on Internal Control. 	<p>Internal Audit Manager</p>
<ul style="list-style-type: none"> • Provide explicit assurance. 	<p>Risk Management Group External Auditor Other Review Agencies/Inspectorates</p>
<ul style="list-style-type: none"> • Review the Statement at an early stage. 	<p>Head of Finance</p>
<ul style="list-style-type: none"> • Approve SIC, if satisfied that it has obtained relevant and reliable evidence to support the disclosures. Consider the reviews of the S151 and Monitoring Officer on issues covered by statutory responsibilities. Recommend approval to the Council. 	<p>Council or Delegated Member Body (Audit Committee)</p>
<ul style="list-style-type: none"> • Following the recommendation by the Delegated Member Body to approve, sign the Statement on Internal Control. 	<p>Leader and Chief Executive (as most senior member and officer)</p>
<ul style="list-style-type: none"> • Publish the Statement on Internal Control with the Council's financial statements. 	<p>Strategic Director (Resources)</p>

A plan to address weaknesses identified and ensure continuous improvement of systems is in place.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

Action plan to address weaknesses and ensure continuous improvement of systems:

Significant Issues Identified	Officer Responsible and Timescale
<p>The Council is embarking on a programme of shared services with Teignbridge District and West Devon Borough Councils.</p> <p>To ensure that this project is successful an action plan will need to be established, together with the relevant cost saving/sharing protocols and suitable governance arrangements.</p>	<p>Strategic Director (Resources) 2007/08</p>
<p>Delivery of the Sherford New Community is a high risk project. The Council is seeking to minimise the risks through: the appointment of external legal advisers; and, through the S.106 Agreement and other legal agreements.</p> <p>A specific risk is that the Area Action Plan (AAP), while found to be sound through independent examination, may be challenged by a developer who has publicly stated through an examination process that the Council has made procedural errors. The Inspector has not agreed but the risk remains.</p> <p>A team of dedicated officers continues to work on the project in partnership with Plymouth City and Devon County Councils.</p>	<p>Head of Community Regeneration 2007/08</p>
<p>A new waste collection methodology and related working practices were introduced and highlighted a number of areas of concern that also resulted in an overspend on the operational budget.</p> <p>The situation is being addressed by a working group which will oversee the project to reorganise the collection rounds in a more efficient and cost effective manner.</p>	<p>Strategic Management Team Head of Operations 2007/08</p>
<p><i>Recruitment and Retention of Staff</i></p> <p>The Council is at risk if the services of some key officers were lost to it. There has been difficulty retaining and recruiting the appropriate staff in certain critical areas e.g. Planning, Housing and Personnel.</p> <p><i>Single Status</i></p> <p>The Council is undergoing a Single Status review, following a legally binding agreement between the Management and Trade Unions of the National Joint Council.</p> <p>It is essentially about the harmonisation of the terms and conditions on which different Council staff are employed, to ensure that they are both fair and non-discriminatory. The process includes job evaluation and a review of related policies and is ongoing.</p>	<p>Strategic Management Team Head of Personnel and Payroll 2007/08</p>

6. CERTIFICATION

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

Signed:

Date:

**David Incoll
Chief Executive**

**Cllr. John Tucker
Leader of the Council**