

Statement on Internal Control

1. Introduction

Regulation 4 of the Accounts and Audit Regulations 2003 which came into force on 1 April 2003 requires the Council to publish a statement on internal control (SIC) with its financial statements in accordance with proper practice. The necessary assurances in support of a full statement for 2005/06 were presented to the Audit Committee on 30 May 2006.

2. Corporate Governance

The 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. In discharging this accountability, Members, the Strategic Management Board (SMB) and other senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal.

3. Internal Control

i. Scope of Responsibility

Stevenage Borough 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 the arrangement 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 Council is also responsible for ensuring that there is a sound system of internal control that facilitates the effective exercise of the Council's functions and which include arrangements for the management of risks.

ii. The Purpose of the System of Internal Control

The system of internal control is designed to manage risks 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 to manage them economically, efficiently and effectively. The system of internal control has been in place for the year ended 31 March 2006 and up to the date of approval of the annual accounts.

iii. The Internal Control Environment

The Council's internal control environment consists of a number of key elements and these are described below:

Establishing and Monitoring the Achievement of Objectives

In June 2005 the Council published its Best Value Performance Plan 2005/06 setting out the Council's ambitions for the Borough until 2009/10. The Plan sets out the Council's vision for the next five years, its core values and its strategic aims. The Plan via its detailed objectives also links with the Stevenage Community Strategy and is supported by a series of other strategies and plans including Service Plans. The Plan has been placed at the centre of the Council's policy and financial planning framework so that service priorities and budgets decisions are formed with the achievement of the Plan as the highest corporate priority. All objectives in the Plan are each individually "owned" by a Portfolio holder and a senior officer and there are regular reviews of the Plan by SMB and the Executive during the year. The Council have developed and enhanced strong and robust performance monitoring arrangements for key performance indicators through the Performance, Priorities and Improvement Group (PPIG). The PPIG ensures that performance monitoring focuses on priorities and outcomes whilst enabling members and officers to understand the reasons for variations in performance against targets with corrective action taken where necessary.

The Facilitation of Policy and Decision-Making

The Council has an approved Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The majority of the Council's functions are vested in the Executive. Therefore most decisions are taken by the Executive, Committees of the Executive, or by the relevant individual Portfolio Holder. Those Council functions which are not vested in the Executive (mainly planning and development and licensing functions) as taken by various regulatory Committees appointed by the Council. Under the Council's Constitution, the Executive meets on a monthly basis and comprises the Leader of the Council, an Opposition Member and eight other Councillors from the Majority Group who have a specific area of responsibility, or Portfolio. The Portfolio areas are:-

- Housing
- Community and Culture
- The Environment
- Health & E-government
- Resources
- Personnel
- Community Safety
- Performance and Improvement.

The Council appoints the Leader and agrees the extent of the eight individual portfolios of executive functions. Major or 'Key' decisions are required to be published in advance on the Council's website as part of the Executives four month 'Forward Plan' and will generally be discussed in a meeting open to the public. All decisions must be made within the parameters of the overall policy and budgetary framework which has been set by full Council. Any

decisions the Cabinet wishes to take outside the budgetary or policy framework must be referred to Full Council for approval. There is one Scrutiny Overview Committee and four Scrutiny Panels who support and monitor the work of the Executive and also monitor other decisions such as Portfolio Holder decisions and service performance. A “call-in” procedure allows the Scrutiny Committee/relevant Panel to scrutinise decisions taken by the Executive or individual Portfolio Holder before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered by the decision taker. The Constitution itself is subject to periodic review.

Compliance with Policies, Procedures, Laws and Regulations

The Council has structured its Executive and Scrutiny Committee/Panels plus other committees such as the regulatory ones, to minimise the risk of it acting in contravention of its own policies and external laws and regulations. It also appoints officers, qualified to undertake statutory responsibilities such as contained within section 151 of the Local Government Act 1972, section 114 of the Local Government Finance Act 1988 (Chief Financial Officer) and section 5 of the Local Government and Housing Act 1989 (Monitoring Officer). The Monitoring Officer, who is the Borough Solicitor, and, as such, is the Council’s senior legal adviser, is responsible for reporting to the Council on any act or proposed act by the Executive, or by any Committee, or individual Member or Officer that would give rise to a contravention of the law, a code of practice or maladministration. He is also available to provide professional legal advice to Members and officers of the Council.

The Council has a duty to ensure that it acts in accordance with the relevant legislation in the performance of its functions. It has developed policies and procedures for its officers to ensure that, as far as possible, all officers understand their responsibilities both to the Council and to the public. Two key documents are the Financial Regulations and the Contract Standing Orders, which are available to all members and officers on the Council’s Intranet as well as available to the public as part of the constitution.

The Council has an approved Risk Management Strategy and Strategic and Operational Risk Registers. Both the Strategic and Operational Risk Registers require risks to be scored (e.g. likelihood and impact) and require the risk owner to list a mitigation strategy including date of implementation. All risks are subject to quarterly reviews per the Strategy. During 2005/06 each service has identified both Strategic and Operational Risks as part of the service planning process. The Strategic Risk Register will be monitored by the Councils Programme Management Board on a quarterly basis. The Operational Risk Registers will be monitored by the relevant Heads of Service and reported to the Councils Programme Management Board on an exception basis. The Council also requires project risks to be identified for major capital schemes before approval.

Various facilitated risk management awareness and training workshops have been held for relevant staff and Members. These sessions were attended by a number of senior managers and explained the revised Risk Management Strategy, updated in January 2006. All Strategic Risks are cross-referenced to the Councils ambitions and priorities, list the risk and mitigation owners and explain the potential consequences if a risk were to materialise. The outturn plans are periodically reported to the Programme Management Board. A full training programme in risk management is to be established for Members

who have yet to receive the training. Risk Management will report into the Audit Committee with effect from May 2006.

Internal audit is delivered in partnership with Uttlesford District Council, an arrangement that continues to satisfy the statutory regulation for internal audit set out in section 151 of the Local Government Act 1972 and section 114 of the Local Government Finance Act 1988. Annual audit coverage is linked to an approved strategic work plan and ensures that all services are reviewed on a cyclical basis. The frequency with which services are audited within the cycle is determined by risk assessment. By reviewing the Council's systems of internal control in accordance with an approved Audit Plan, Internal Audit contribute to the Council's corporate governance framework. Internal Audit operate to defined standards (CIPFA/IIA). The Audit Manager reports to the Council's Head of Finance and Assistant Chief Executive (Finance). An Audit Committee was established in May 2006 and its duties include advising and commenting on:-

- the adequacy of management response to Internal Audit reports and recommendations
- the annual Audit and Inspection Letter from the external auditor
- anti-fraud and corruption issues including the Council's policies on anti-fraud and corruption
- the Council's Statement on Internal Control
- the Council's risk management arrangements
- the Council's arrangements for delivering value for money

The Audit Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control and previously reported this annually to the Council's Resources and Corporate Management Scrutiny Panel. From 2006/07, this report will be submitted on a yearly basis to the Audit Committee. The main responsibility of the Internal Audit Team is to provide assurance and advice on the internal control systems of the Council to SMB and Members. Internal Audit reviews and appraises the adequacy, reliability and effectiveness of internal control within systems and recommends improvement where necessary. It also supports management in developing systems, providing advice on matters pertaining to risk and control.

Ensuring Economic, Efficient and Effective Use of Resources

The Council continues to review and develop its budgetary monitoring and control processes to ensure that financial resources are used to their best advantage. Financial Planning is underpinned by Service Planning with increased expenditure in any service being justified to the SMB and where necessary approved by the Executive. Key to the service planning process is a requirement to demonstrate planning for continuous improvement over several years. PMB is tasked with prioritising resources to ensure that the objectives within the Best Value Performance Plan are supported by the individual service plans and that improvements are in line with corporate objectives. Economic and effective use of services is subject to review through the work of both Internal and External Audit.

The Council continues to be strongly committed to the principles of Best Value (BV) and continuous improvement. The BV Review methodology takes into

account the requirements of the Gershon efficiency and collaboration agendas. An essential part of Internal Audit's role is to make recommendations where appropriate through Management Action Plans to ensure measures are taken to improve and strengthen the efficiency and effectiveness of the Council's services.

Financial Management

Ensuring that an effective system of internal financial control is maintained and operated is the responsibility of the S151 Officer. The systems of internal financial control provide reasonable but not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the separation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes may be the responsibility of other managers within the Council. In particular, the Council's current processes (2005/06) include the following:

- the setting of annual budgets;
- monitoring of actual income and expenditure against the annual budgets;
- a mid year review of the annual budget;
- monthly budget reviews to estimate likely outturn figures;
- periodic reporting of the Council's financial position to Members;
- clearly defined capital expenditure guidelines as outlined in the Capital Strategy;
- the monitoring of finances against a Medium Term Plan.

During 2006/07 the Council proposes to strengthen these processes and will be responding to external audit, Comprehensive Performance Assessment (CPA) and Use of Resources requirements.

The Council does not have comprehensive procedure notes/manuals in place for all key financial systems, but it is planned to produce this guidance on a phased basis which will be completed by December 2007.

The controls created by management are evaluated to ensure:

- Council objectives are being achieved;
- economic and efficient use of resources;
- compliance with policies, procedures, laws and regulations;
- the safeguarding of Council assets;
- the integrity and reliability of information and data.

The Council's financial management arrangement consists of a number of interlocking strands:

Financial Regulations – The regulations provide the framework for managing the Council's financial affairs. They identify the financial responsibilities of the Executive, Portfolio Holders and Officers. They also set out the procedures that the Council has adopted for financial planning, budgeting, risk management,

auditing, treasury management and procurement of goods and services including standing orders for contracts.

Medium Term Financial Planning – The Council publishes in its Budget Book revenue and capital projections for the next few years. The projections are reviewed and updated on an annual basis. Additionally, to inform the capital planning process the Council has developed a Capital Strategy to prioritise, target and measure the performance of its capital resources. The Strategy has been developed in consultation with stakeholders and partners and is co-ordinated by the Corporate Capital Review Group.

Budget Preparation – The Council has a robust budgeting process driven by the objectives outlined in its Best Value Performance Plan. In 2006/07 the Council will strengthen the links between the budget and the Plan by continuing to develop a process to prioritise the allocation of resources in line with the objectives of the Plan.

Budget Management – A protocol is in place for the management of budget over and under spends and the Council's financial reserves that is designed to manage areas of known budget risk, the planning for predictable budget peaks and change management issues. In addition a review is taking place to identify reasons for underspends and implement systems to avoid material variances. The responsibility for all earmarked reserves is assigned to individual officers.

Budgeting, Monitoring and Reporting – Officers are provided with information enabling them to manage their budgets. All budgets are assigned to responsible officers. Additionally, key budget control information is produced on a monthly basis for SMB and twice yearly to the Resources Scrutiny Committee.

Performance Management

The Council has had a performance management system for several years based on a range of local and national performance indicators. Performance data is reported quarterly to SMB and to meetings of the PPIG. Areas where performance is below target are highlighted and responsible officers are required to provide a Performance Improvement Plan for these items. The Council uses benchmarking figures to compare itself with other Councils and is working on re-engineering processes as a key step to improving performance. A number of further improvements have been introduced including the introduction of BVPI improvement clinics.

Review of Effectiveness

The Council has responsibility for conducting at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness will be informed by the work of the internal auditors and the managers within the Council who have responsibility for the development and management of the internal control environment and also through comments made by external auditors and other review agencies and inspectorates.

The review will be principally informed by :

- the work of the Internal Auditors
- the work of managers within the Council

- the external auditors in their annual audit and inspection letter and other reports
- comments by other review agencies and inspectorates

The Audit Partnership Manager's Annual Report for 2005/06 will be presented to the Audit Committee on 30 May 2006. Issues that the Audit Partnership Manager considers should be included in this Statement of Internal Control are shown in 3v.

iv. Significant Control Issues

For the year ended 31 March 2004, external audit identified a few key actions in the Annual Audit and Inspection letter. Action plans have been developed to address the issues raised.

The 2004/05 Annual Audit and Inspection Letter and the Annual Internal Audit Report 2005/06 were presented to the Audit Committee on 30 May 2006. External audit generally found the Council's systems of internal control robust and the Letter stated that "aside from our use of resources assessment findings, we have not identified any further significant weaknesses in the overall control framework." Detailed Improvement Plans have been developed for the issues included in the Use of Resources assessment and the Internal Audit annual report. In summary, these are as follows:

Description of actions	What needs to be done	Target Date
<u>Use of Resources Assessment</u>		
Risk management improvement	Processes and reporting to be further developed and training of Member/Officers be progressed.	March 2007
Improvement in Financial Reporting	Summary accounts and the needs of stakeholders to be developed.	December 2006
Continued development of Financial Management across the Council.	Investigate reasons for underspends and develop performance measurement and benchmarking.	December 2006
Improvement in costs information to enhance value for money investigations.	Unit costs to be developed as part of key budget setting and performance management processes.	December 2006
<u>Internal Audit Report</u>		
Arrangements to be put in place to ensure regular reconciliations of key financial systems.	Training of staff, development of monitoring arrangements, and procedure notes to be progressed.	December 2007
Revenue Control e.g. Car Parks	Procedure notes and monitoring arrangements improved.	December 2006

Improvements in Benefits administration.	Interim Head of Service to assist in developing and monitoring the improvement plan completion.	December 2006
Financial administration e.g. sundry debtors, invoicing and post opening.	Systems to be investigated and procedure notes developed.	November 2006

- v. We have been advised on the progress in implementing a co-ordinated review of effectiveness of the system on internal control and are aware of the issues identified in this statement which require actions.

Leader of the Council **Date**

Chief Executive **Date**

Assistant Chief Executive (Finance) **Date**