

## 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 2006/07 were presented to the Audit Committee on 26<sup>th</sup> June 2007.

### 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 2007 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 2006 the Council published its Best Value Performance Plan 2006/07 setting out the Council's vision for the town, its values and its strategic ambitions and priorities. The Plan links with the Stevenage Community Strategy, which is produced in liaison with the Council's strategic partners through the Local Strategic Partnership (LSP). The Plan is supported by a series of other strategies and plans including Service Plans and has been placed at the centre of the Council's policy and financial planning framework to inform service priorities and budget decisions. Each ambition has an associated programme of work, with projects to deliver the priorities. Programme Management Board (PMB) review each programme on a bimonthly cycle. At member level the programmes are reported to 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 & Health
- Community and Culture
- Economic Regeneration
- The Environment & E-government
- Resources
- Equalities & Human Resources
- 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/Rolling Programme' 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 Executive wishes to take outside the budgetary or policy framework must be referred to Full Council for approval. All Committee reports are produced on a standard template to facilitate understanding and all reports are supported by comprehensive assessments of the Legal, Financial and other implications of the proposed recommendations. The Strategic Director (Chief Finance Officer) briefs the Resources Portfolio-holder on a monthly basis with regard to Financial, Legal and other resource issues. There is a Scrutiny Overview Committee, which forms "topic groups", as necessary, to scrutinise specific issues and thereby supports and monitors the work of the Executive and also monitors 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. In May 2006 the Council established an Audit Committee. 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 Financial Regulations and Contract standing Order are reviewed at least annually and any proposed amendments are put forward to Council for approval.

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 2006/07 each service has identified both Strategic and Operational Risks as part of the service planning process. The Strategic Risk Register is monitored, on a quarterly basis, by the Council's Programme Management Board (PMB). The Operational Risk Registers are monitored by the relevant Heads of Service and reported to the Council's Programme Management Board on an exception basis. The Council also requires project risks to be identified for major projects and capital schemes before approval. Some specific work was undertaken in 2006/07 to seek to identify any risks associated with our major partnership arrangements and this work is ongoing.

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 Council's 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 and Officers who have yet to receive the training. Risk Management processes are now reported into the new Audit Committee, which was established in May 2006.

The Council's processes in relation to risk management are subject to a review by the Council's Insurance - Risk Management Consultants, which may lead to a further strengthening of the overall processes and help to ensure that they are embedded within the way the organisation operates on a day to day basis. As part of the effort to embed a risk management approach the Resources Portfolio-holder will be the Council nominate member Risk Management Champion.

### Internal Audit Arrangements

In 2006/07 Internal audit was delivered in partnership with Uttlesford District Council, an arrangement that has satisfied 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. In April 2007 Uttlesford District Council gave notice of their intention to withdraw from the partnership. Stevenage Borough Council feels that the Audit Partnership arrangements have served the Council well over the four years of the partnership and will pursue the opportunity to re-establish a new Audit partnership with other Councils. 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 Strategic Director (Chief Financial Officer /Section 151 Officer), and provides updates on internal audit progress and issues at regular Section 151 meetings.

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.

The Audit Manager's Annual Internal Audit Report 2006/07 was reviewed by SMB and reported to the Audit Committee in June 2007. The Audit Manager's opinion is that for 2006/07 the risks identified by Internal Audit are largely adequately controlled.

### Audit Committee

An Audit Committee was established in May 2006 and its duties include advising and commenting on:-

- Internal Audit Matters including:
  - o the Annual Internal Audit Plan
  - o the adequacy of management response to Internal Audit reports and recommendations
  - o the Audit Manager's Annual Report and Opinion
  - o summaries of specific internal audit reports
- External Audit matters including:
  - o the External Auditor's plans for auditing and inspecting the authority
  - o 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 Constitution in respect of Contract Standing Orders and Financial Regulations
- the Council's risk management arrangements
- the Council's arrangements for delivering value for money
- the Council's Statement of Accounts and Statement on Internal Control

The Audit Committee is an advisory committee of the Council. It has been constituted in line with the best practice recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance. In 2006/07 the Audit Committee was comprised of four appropriately skilled Council Members, including only one Executive member, one member from an opposition group and one member from the Scrutiny Overview Committee. The Committee is further supported by an independent representative who, in addition to independence, also brings further financial / accountancy professional skills. The Chair of the Audit Committee is neither a member of the Executive nor a member who serves as a Scrutiny member. For 2007/08 the membership of the Audit Committee has been extended by one additional member. The Committee meets on four occasions during the year, at times scheduled to handle the main responsibilities contained in the Committee's terms of reference. The Committee has received specific training during the year regarding its role within the Council. Some training was provided by the Audit Commission and further familiarisation sessions have been presented by officers of the Council and other specialists, including areas such as Risk Management.

Operation of the Audit Committee, during this first year since establishment, has been particularly effective. As such it has, in itself, significantly contributed to further strengthening the Council's overall systems of Internal 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. The Service Planning process is cascaded throughout the organisation with plans being prioritised through to front line service provision in the Council's Performance Development Management (PDM) scheme, used as part of the management review processes for all members of staff. The effectiveness of these processes is recognised in the Council's achievement of Investors in People (IiP) status. Effective Workforce Planning also forms a key part of the Council's processes to seek to ensure efficient use of resources. PMB is tasked with prioritising resources to ensure that the priorities within the Best Value Performance Plan are supported by the individual service plans and that improvements are in line with the Council's corporate priorities. Economic and effective use of services is subject to review through the work of both Internal and External Audit.

Consultation exercises are used to inform decisions about strategies and policies and therefore influence the service planning process. A variety of approaches to consultation are used in line with a Consultation Strategy and Programme. For example, in 2006/07 the Council held a Community Conference, which sought the views of members of the public on relative priorities and levels of service provision and budgetary implications. In addition further communication and consultation has been conducted using surveys, vox-pox interviews etc., reflecting the Council's ongoing commitment to public consultation.

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.

In support of the Council's commitment to efficient and effective use of its resources work has been undertaken during 2006/07 to enhance the assessment of detailed unit costs for various Council services and to compare these with other similar Council's. Such detailed analysis and benchmarking is assisting the Council's in seeking to ensure continuous improvement in its achievement of Value for Money.

### 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, appropriate staffing structures including appropriately skilled, trained and qualified staff 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 processes in 2006/07 include the following:

- comprehensive processes to review priorities in the formation of the Council's annual Forward Planning and Savings exercises;
- the setting of detailed annual budgets, the Council Tax and Housing Rents;
- monitoring of actual income and expenditure against the annual budgets;
- specific detailed monitoring of the Council's Salaries budgets;
- availability of financial information at all times online 'live' within the Council's Financial Information System (Integra);
- production of monthly reports for budget managers and publication of these on the Council Intranet;
- the detailed use of Commitment Accounting processes;
- a mid year review of the annual budget;
- monthly budget reviews to estimate likely outturn figures;
- production of monthly Key Budget Information (KBI) reports to SMB;
- periodic reporting of the Council's financial position to Members;
- clearly defined capital expenditure guidelines as outlined in the Capital Strategy;
- detailed monitoring of the Council's Capital Schemes through the Corporate Capital Review Group (CCRG) and reported onto PMB;
- the monitoring of finances against the Medium Term Plans;
- Continuous reviews, updating and reporting of the Council's Medium Term Revenue and Capital Strategies;

- Provision of financial training for non-financial managers and members to equip them to perform their respective roles in respect of financial management responsibilities.

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 at least 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 has sought to 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. Further work is taking place to identify reasons for underspends and implement systems to avoid material variances. The process to approve the carry forward of budget underspends from one year to the next has been considerably strengthened in recent years. 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 periodically to Members. In 2007/08 it is intended to strengthen the monitoring processes and reinforce budgetary responsibility by reporting monthly through the Heads of Service Group.



### Performance Management

The Council has had a performance management process 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. Following each quarterly analysis and reporting, Performance Clinics (BVPI Clinics) are scheduled with a focus on exception reporting and with relevant officers required to attend. 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. During 2006/07 SMB reviewed high risk or below target BVPI's on a weekly basis, discussing issues in detail with relevant officers to seek to drive improvements in service.

### Establishment of Stevenage Homes Limited

On the 1<sup>st</sup> October 2006 the Council established an Arms Length Management Organisation (ALMO), Stevenage Homes Limited (SHL), to manage and maintain the Council's Housing Stock. The Board of SHL have overall responsibility for the Company and the provision of Housing Services for the Council's tenants. SHL, as a Company, has its own External Auditors and will report on its own systems of internal control in line with its governance arrangements. However, the Company has significant inter-relationships with the Council and is required to be included within the Council's 'Group Account' for publication of accounts reporting purposes. The effect of the establishment of SHL on the Council's Systems of Internal Control is considered to be managed in the following ways:

- The Council invested appropriate resources and expertise into the establishment of SHL in the period prior to 'go-live' on 1<sup>st</sup> October 2006.
- Part of the rationale for establishing SHL was that concentrated management focus on the Housing Service should bring about and overall improvement in the Service and its associated controls.
- Relevant Housing staff and management and appropriate support staff (including Finance and Human Resources staff) were transferred to SHL under TUPE arrangements. As such the organisation was established with experienced and appropriately qualified expertise to deliver the Service and maintain internal control.
- The constitutional and procedural relationships between the Council and SHL are detailed in a Management Agreement.
- SHL has established appropriate constitutional and governance arrangements, including its own Audit Committee.
- SHL responsibilities for the Housing Service, the objectives and priorities, are detailed in the published Service Delivery Plan.
- Monitoring arrangements between the Council and SHL have been established and are being enhanced.
- Upon establishment SHL adopted in the first instance many of the Council's Policies and Procedures and subsequent review of these is generally subject to consultation with the Council. Policies and Procedures adopted include:
  - Financial Regulations & Contract Standing Orders
  - Housing Services policies & procedures
  - Performance Management arrangements

- Risk management approach
- SHL main financial processes continue to be provided in liaison with the Council through Service Level Agreements (SLA's). As such, the Council's internal controls continue to apply and economies of scale have been maintained.
- The Council's Internal Audit Service provides Internal Audit to SHL through a SLA. The Internal Audit Manager reports directly to SHL's Audit Committee, as appropriate, or produces joint reports to the Council and SHL for Audits in respect of shared systems.
- SHL adopted the Council's financial systems and financial planning, budget setting, monitoring procedures. SHL finances have been subject to monthly monitoring between the Council and SHL.

As such it is considered that, although the establishment of SHL was a major structural change for the Council, sufficient mechanisms are in place to ensure that the Council's overall systems of Internal Control have been maintained.

### Improvements made to the Internal Control environment during 2006/07 -

In response to previous recommendations, the Audit Commissions 2004/05 Annual Audit and Inspection Letter and the 2005/06 Annual Internal Audit Report improvements were made to the overall systems of Internal Control during 2006/07 in the following main areas:

- Audit Committee established in May 2006 and a successful first year of operation completed throughout 2006/07
- Problems associated with the Bank Reconciliation were resolved and during 2006/07 reconciliations have been completed accurately and on a timely basis.
- A new Head of Service was appointed to develop and implement improvement in Benefits service administration.
- Risk Management Processes were further developed.
- Unit cost analysis was developed together with benchmarking against other similar Councils to seek to enhance Value for Money investigations.
- Further Improvements in financial reporting were introduced with publication of monthly reports on the Council's Intranet

The Council constantly seeks to strengthen its management processes. Such improvements are ongoing in the spirit of continuous improvement.

### Review of Effectiveness of Systems of Internal Audit

The Accounts and Audit (Amendment)(England) Regulations 2006 place a new requirement on Local Authorities that as part of considering its systems of internal control they should also review and report to Committee on the effectiveness of Internal Audit. This review has been undertaken by the Head of Finance, review by the Council's Strategic Director (Section 151 Officer), SMB and reported to the Audit Committee. The review has been considered against the Department for Communities and Local Government (DCLG) guidance and concluded that the Internal Audit Service in 2006/07 is judged to have been effective, having considered the following factors:

- Assessment of the Service against the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit indicated substantial compliance with the code.

- The Internal Audit Manager's Annual Internal Audit Report 2006/07 indicated that in his opinion risks within the Authority as identified by Internal Audit are largely adequately controlled
- The work undertaken by Internal Audit is assessed to have been undertaken in an effective manner resulting in effective outcomes
- Processes are in place for the Section 151 & Deputy Section 151 Officers to review the work of Internal Audit throughout the year.
- The establishment of the Audit Committee in May 2006 has significantly enhanced the overall system of Internal Audit.
- The Audit Commissions Draft Review of Internal Audit Management Arrangements indicates the following main conclusion:
  - Our overall conclusion is that Internal Audit's corporate arrangements broadly meet the required CIPFA standards. We have noted areas where further improvements can be made. These mainly relate to improving the way in which Internal Audit engages with and reports to the recently formed Audit Committee.
- The Audit Commission has to date been able place reliance on the work of internal audit.
- The Audit Commissions Use of Resources Assessment, issued in March 2007, increased the Council's overall score from 2 to 3, notably reflecting and increase to a score of 3 in respect of Internal Control. The findings recognised the establishment of the Audit Committee and that Internal Audit continued to operate in accordance with the CIPFA code of practice.
- Satisfaction with the Internal Audit Service amongst auditees remains very high.

### Review of Effectiveness of Systems of Internal Control

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 is 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 Council's review of the Effectiveness of Internal Audit
- 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 Internal Audit Manager's Annual Report for 2006/07 was presented to the Audit Committee in June 2007. It is the Internal Audit Manager's opinion that during 2006/07 the risks identified by Internal Audit were "largely adequately controlled". Issues that the Audit Manager considers should be included in this Statement of Internal Control are shown in the future improvements table below.

The Audit Commission's 2005/06 Annual Audit and Inspection Letter was discussed with Officers and the Leader of the Council and Executive Councillor (Resources) in March 2007 and reported to the Audit Committee in June 2007. The Letter was largely positive and can be summarised as follows:

The main messages for the Council are:-

- The Council has made improvements in key priority services and overall performance. The rate of improvement, as measured by a basket of performance indicators, is above average for District Councils, although improvement is less strong in some public facing services.
- The Council provides strong community leadership and a commitment to partnership working to deliver community outcomes. Community consultation is a strength. Links with, and better understanding of, ethnic minorities are developing.
- There is a growing culture of value for money within the Council, with a developing understanding of costs which will support improvements in service quality and efficiencies. Comparative performance in terms of costs has improved over the last three years; levels of reduction were one of the best within the Council’s comparator group in 2005/06.
- The quality of working papers supporting the accounts has improved however there is scope for further improvement, particularly in relation to arrangements for capital accounting.

Financial Management and Value for Money -The appointed auditor provided:

- An unqualified opinion on the 2005/06 accounts;
- A conclusion on value for money arrangements to say that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- A report on the best value performance plan confirming that the plan has been audited.

Use of Resources Assessment - The Audit Commission have assessed the Council’s use of resources, and concluded that progress has been made to strengthen and embed arrangements in a number of areas. In particular, improvements have been made in relation to financial standing and internal control, which have resulted in an increase in the Council’s overall use of resources assessment from a score of 2 to a score of 3 - “consistently above the minimum requirements – performing well”.

Actions needed by the Council, as identified in the AAIL, are detailed in the future improvements table below.

The Audit Commission Use of Resources Judgements was published in March 2007 and was summarised in their AAIL. The more detailed finding with regard to Internal Control, which resulted in an increase in the overall Internal Control Score from 2 to 3, are as follows:

Key Line of Enquiry	Score 2006	Score 2005
<b>4. Internal Control</b>	<b>3</b>	<b>2</b>
4.1 The Council manages its significant business risks	3	2
4.2 The Council has arrangements in place to maintain a sound system of internal control	2	1
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business	3	3

During 2006/07 an issue arose that was required to be reported under Section 114A of the Local Government Act 1988. The Council's Monitoring Officer and Section 151 Officer reported to the Executive in November 2006 that during April and May 2006 the Council had commissioned a publication on Hertbeat Radio. As this publication fell within the "purdah" period prior the Council elections in May 2006 (when the Council is required by law not to publicise information of a nature that could be considered to influence the elections) it was retrospectively judged, following a complaint, that this publication was contrary to the regulations and the Section 151 Officer sought to recover the costs incurred. The Council learnt from this unfortunate mistake and issued further guidance to all officers in advance of the 2007 elections and monitored the position closely.

Significant Control Issues

The External and Internal Auditors have concluded that the Council's Systems of Internal Control are generally sound and risks are largely adequately controlled.

However, in the spirit of continuous improvement, detailed Improvement Plans have been developed for seek to enhance any areas where the scope to strengthen internal controls has been identified by management, members, Internal Audit, the Audit Commission or other review agencies. In summary, these are as follows:

<b>Action Plan for Future Improvements to enhance Internal Controls</b>		
<b>Area for action</b>	<b>What needs to be done</b>	<b>Target Date</b>
Internal Audit & Audit Committee	<ul style="list-style-type: none"> <li>• Strengthen the procedures for Internal Audit to engage with the Audit Committee, reporting quarterly activity and performance</li> <li>• Review the arrangements for delivery of Internal Audit and the associated Audit Plan, seeking to re-establish a partnership</li> <li>• Promote robust scrutiny of the Accounts by members</li> </ul>	<p>June 2007</p> <p>September 2007</p> <p>June 2007</p>
Value of Money (VFM) Investigations	Ensure that the improvements made in units costing and benchmarking are embedded as an integral part of Service Reviews and developing key corporate indicators for VFM	March 2008
Risk Management	<p>Ensure arrangements for risk management are embedded and that risk management is key to the Council's processes, including :-</p> <ul style="list-style-type: none"> <li>• Conduct review of overall risk management arrangements facilitated by the Council's Insurance</li> </ul>	March 2008

## Appendix A

	<ul style="list-style-type: none"> <li>– Risk Management Consultants</li> <li>• Establish a full training programme for members and managers</li> <li>• Establish member champion role</li> </ul>	
Financial Management	<ul style="list-style-type: none"> <li>• Strategic <ul style="list-style-type: none"> <li>○ Major review of the Revenue &amp; Capital Medium Term Strategies to ensure plans continue to be brought into balance</li> </ul> </li> <li>• Budget Monitoring, including: <ul style="list-style-type: none"> <li>○ Strengthening of budget responsibility, variance analysis and reporting, including through Heads of Service Group</li> <li>○ Simplification of some accounting &amp; recharge processes</li> <li>○ Review of Salaries monitoring procedures linked to HR system</li> <li>○ Review of Key Budget Information report format to SMB</li> </ul> </li> <li>• Embed Financial Training for members and non-financial managers and communicate understanding of Medium Term Financial Strategies.</li> </ul>	December 2007
Financial Administration	<ul style="list-style-type: none"> <li>• Main Accounting <ul style="list-style-type: none"> <li>○ Ensure improvements in Bank Reconciliation processes are maintained</li> <li>○ Ensure Journal and Virement procedures are complied with</li> <li>○ Maintain continuous improvement to year end working papers</li> </ul> </li> <li>• Ensure main financial systems “back up” and business continuity arrangements are effective</li> <li>• Review improvements to: <ul style="list-style-type: none"> <li>○ Capital accounting arrangements</li> <li>○ Financial systems procedure notes</li> </ul> </li> </ul>	December 2007
Financial Reporting	Enhance external reporting of summary accounts to stakeholders	September 2007
Ethics & Probity	<ul style="list-style-type: none"> <li>• Continue to issue detailed guidance and monitor closely publications issued by the Council during the pre election “purdah” period.</li> <li>• Continue to promote ethical standards</li> <li>• Review risk assessment of likely areas for fraud and corruption to ensure counter fraud activity is appropriately focused &amp; resourced</li> </ul>	May 2007 & ongoing  December 2007  December 2007

## Appendix A

Over Internal Control	Develop an assurance framework to map the Council's strategic objectives to risks, controls and assurances.	December 2007

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.

Strategic Director (Finance) 28<sup>th</sup> June 2007

Chief Executive 28<sup>th</sup> June 2007

Leader of the Council 28<sup>th</sup> June 2007