

EAST HERTS COUNCIL

AUDIT COMMITTEE – 26 JUNE 2007

COUNCIL – 27 JUNE 2007

REPORT BY LEADER OF THE COUNCIL

9. 2006/07 STATEMENT OF INTERNAL CONTROL

WARD(S) AFFECTED: All

‘D’ RECOMMENDATION - that (A) the Audit Committee consider the process in place for the production of the authority’s 2006/07 Statement of Internal Control and recommend its adoption.

(B) Following approval by Council that on behalf of the Members and Chief Officers of East Herts Council, the Leader of the Council and Chief Executive sign the 2006/07 Statement of Internal Control as being a true statement; and

(C) Audit Committee receive quarterly reports on progress made against implementing the action plan contained in the 2006/07 Statement of Internal Control and updates arising from Chief Officer assurance statements.

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1.0 Purpose/Summary of Report

1.1 This report presents the proposed 2006/07 Statement of Internal Control (SIC). Following due consideration by the Audit Committee the SIC will be recommended for approval by Council. Following Council approval the SIC will be signed by the Leader of the Council and Chief Executive on behalf of the Members and Chief Officers of East Herts Council as being a true statement.

2.0 Contribution to the Council’s Corporate Objectives

2.1 This report contributes towards the Council’s priority to deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.

### 3.0 Background

- 3.1 Regulation 4 of The Accounts and Audit Regulations (England) 2003 as amended by The Accounts and Audit (Amendment) (England) Regulations 2006 requires the Council to publish a SIC with the financial statements. The SIC contains an action plan to enhance internal controls.
- 3.2 At the Audit Committee on 27 June 2006 it was agreed that progress made by officers towards enhancing internal control would be reported on a quarterly basis to the Audit Committee. Following advice from Robson Rhodes it was also agreed that the Audit Committee would receive quarterly updates following “in year” reviews of Chief Officer Assurance Statements. These reporting arrangements were established to give Members the opportunity to review and input into the internal control process on an on-going basis.

### 4.0 Report

- 4.1 Regulation 4 of The Accounts and Audit Regulations (England) 2003 as amended by The Accounts and Audit (Amendment) (England) Regulations 2006 requires East Herts Council to conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on its systems of internal control and risk management.
- 4.2 The SIC is a statutory document that should be produced alongside the Statement of Accounts.
- 4.3 The SIC is a corporate document and is not restricted to an opinion on financial control. CIPFA guidance, which has been underlined by our External Auditor, states that internal control is being interpreted in its broadest sense covering both financial and managerial controls that ensure that the implementation of East Herts Council's vision and priorities is being properly managed. Systems of internal control will therefore cover controls such as:
- the setting and review of the Council's priorities,
  - service plans,
  - performance management systems,
  - risk management,
  - financial and management controls,
  - compliance with laws and regulations,
  - accuracy and reliability of financial statements and other published information,

- human, financial and other resources being managed effectively and efficiently and
- high quality services being delivered efficiently and effectively.

Compilation of the SIC requires East Herts Council to review the adequacy of its governance arrangements, develop an action plan to improve its arrangements and to communicate to stakeholders how better governance leads to better quality public services.

- 4.4 On 29 May 2007, Corporate Management Team reviewed the content of the proposed 2006/07 SIC. This review involved an evaluation of assurances contained within the statement and the development of an action plan to address weaknesses and ensure continuous improvement of internal control. As part of this process Chief Officers have certified individual assurance statements which underline their responsibility for maintaining an adequate and effective system of internal control and identify areas of concern and proposed measures to correct significant internal control issues. Significant control issues identified by the Chief Officer assurance process have been reflected in the SIC. The 2006/07 SIC is attached at Appendix 'A' (pages 91 - 100).

A score of 3 (performing well) was awarded within the 2006/07 Use of Resources Judgement in respect of the Council's internal control environment. In order to acquire a score of four (performing strongly) the following enhancements to internal control processes are required:

- Risk management to become fully embedded in the council's business processes, that opportunities as well as managing threats are identified within risk management processes and that Members and appropriate staff receive training in managing risk.
- Business continuity arrangements should be developed and procedure notes and manuals for key financial systems should be in place and annually reviewed.
- Financial Regulations and Procedures and the scheme of delegation should be reviewed on an annual basis by Members and updated as appropriate.
- Counter fraud arrangements to become fully embedded in corporate business processes as well as departmental working practices.

- 4.5 As part of the preparation of the 2006/07 SIC, the assurance framework for risk management and internal control has been mapped out, see Appendix 'B' (page 101). Chief Officer assurances

have been captured as appropriate for the preparation of the SIC. Controls listed within the SIC have been subject to independent scrutiny by Internal Audit, External Audit, inspection, benchmarking etc which have validated their operation.

4.6 On a quarterly basis throughout 2007/08 Corporate Management Team will continue to monitor progress made towards implementing the action plan contained in the 2006/07 SIC. In line with earlier advice from RSM Robson Rhodes LLP, Corporate Management Team will also continue to receive quarterly updated Chief Officers' assurance statements so as to provide evidence of ongoing commitment towards maintaining an adequate and effective system of internal control and to alert senior management to emerging significant concerns surrounding internal control. By continuing to provide quarterly assurances a live "in year process" rather than a year end exercise will be demonstrated.

4.7 The Audit Committee will continue to be appraised on a quarterly basis of the results of senior management's review of the internal control framework. This reporting process will give members the opportunity to review and input into internal control on an on-going basis.

#### 5.0 Consultation

5.1 No public or partner consultations have been undertaken during the preparation of this report. During the preparation of the 2006/07 SIC the opinion of the External Auditor RSM Robson Rhodes LLP was sought. Robson Rhodes considers that the approach adopted for developing the 2006/07 SIC looks robust and the system of Chief Officers' assurance statements appears sound. Robson Rhodes has stated that good process will need to be supported by robust and auditable documentation and Chief Officers have recognized this requirement as part of their assurance statements provided.

#### 6.0 Legal Implications

6.1 The production of the 2006/07 SIC is a statutory requirement.

#### 7.0 Financial Implications

7.1 The SIC reflects agreed actions to enhance financial control.

8.0 Human Resource Implications

8.1 The SIC contains actions to enhance the control of staff resources.

9.0 Risk Management Implications

9.1 The SIC reflects agreed actions to enhance risk management processes.

Background Papers

None

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## **EAST HERTS COUNCIL – STATEMENT OF INTERNAL CONTROL**

### **1. SCOPE OF RESPONSIBILITY**

East Herts 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. East Herts 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, East Herts Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of East Herts 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 and to comply with the law; 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 evaluate the likelihood and impact of those risks being realised, and to manage them effectively.

Except where noted below the system of internal control has been in place at East Herts Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

### 3. THE INTERNAL CONTROL ENVIRONMENT

During the 2006/07 period, East Herts Council operated under a vision and set of six corporate priorities to guide its work. The vision was:

*“To improve the quality of people’s lives and preserve all that is best in East Herts”*

And to do so East Herts Council would:

*Enhance the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.*

*Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.*

*Improve standards of the neighbourhood and environmental management in our towns and villages.*

*Care for and improve our natural and built environment.*

*Safeguard and enhance our unique mix of rural and urban communities, ensuring sustainable, economic and social opportunities including the continuation of effective development control and other measures.*

*Deliver responsible community leadership that engages with our partners and the public.*

The Local Code of Corporate Governance which is the strategic policy covering all corporate governance arrangements including internal control is reviewed regularly by Corporate Management Team and is subject to approval by Council.

The Council’s integrated service planning and financial management framework ensures that resources are directed towards the priorities of the Council and that service actions are then set to measure and ensure that the desired aims are achieved. The District Community Strategy is the overarching plan that informs the Council’s vision and priorities and is informed by effective and co-ordinated consultation with our local communities using bi-annual MORI resident surveys, quarterly Community Voice forums, targeted consultation with stakeholders and

by encouraging customer feedback. The vision and priorities are reviewed on a yearly basis to ensure they are still relevant. The Executive approves the Corporate Strategic Plan which shows how the Council's priorities will be delivered by setting key strategic objectives. Service Plans are then produced every year by Heads of Service and describe what key actions need to be taken to deliver the key strategic objectives contained in the Corporate Strategic Plan and to identify the statutory obligations of the service. Corporate Management Team approves the Service Plans.

Actions contained in Service Plans are monitored six monthly via the Council's performance management system Covalent, in addition to some also being measured and tracked by key performance indicators. During 2005/06 the Council took the opportunity to reflect on what it had achieved and how it is delivering improvement, through the separate Comprehensive Performance Assessments – Use of Resources and Direction of Travel – that took place. Part of the challenge, as well as improving service delivery, was also about improving our corporate infrastructure and systems. In terms of performance management East Herts Council aimed to “sharpen its focus”. This process resulted in the number of local performance indicators for 2006/07 being streamlined and the introduction of a combined performance and finance monitoring report, titled the ‘Corporate Healthcheck’.

All performance information is reported to the public and key stakeholders and a system of staff performance and development reviews facilitates the monitoring of actions.

East Herts Council also achieved Investors in People status in 2004/05 and this has resulted in enhanced control for two way dialogue between staff and management.

Progress on priorities and targets are monitored through the Council's performance monitoring system which consists of:

- Monthly exception reporting on key performance indicators and financial data, through the Corporate Healthcheck. This is submitted to the Corporate Management Team where corrective action is identified.
- Portfolio Members viewing performance of those services relevant to their area of responsibility on the Council's performance management system.



- Quarterly reports on key performance indicators and financial data, through the Corporate Healthcheck. This is submitted to Performance Scrutiny Committee.
- Twice yearly reports on Service Plans and the Comprehensive Performance Assessment Improvement Plan to Performance Scrutiny Committee.
- Annual reporting on estimated outturn performance, actual performance and details on the achievement for the year and future plans to Performance Scrutiny and then the Executive.

The service planning and financial management framework are integrated. Service Plans feed into the four-year budget-planning model, which the Council uses to plan its income and expenditure to identify whether financial resources are available to fund actions in priority areas. Service challenge reviews were undertaken during the 2006/07 financial year to identify measures to harmonise the allocation of resources to the Council's priorities. The challenge day events identified savings of both a cashable and efficiency basis and enabled the identification of the savings required under the Gershon review.

The Council undertakes an annual review of its Constitution and this is supplemented by additional amendments as required. During 2006/07 the Local Plan, Treasury Management and Annual Investment Plan, the Economic Development Strategy, Private Sector Housing Enforcement Strategy, the Bishops Stortford Transport Study, Leisure and Cultural Strategy, CPA Improvement Plan and the Corporate Strategic Plan were approved to underpin the system of internal control.

The policy and decision making arrangements are laid out in the Constitution and the key elements are contained within the roles of the Council and the Executive.

The Council is responsible amongst other things for adopting the Authority's Constitution, approving the Policy Framework and Budget, for appointing the Chairman and Leader of the Council, for confirming the appointment of the Head of Paid Service and for agreeing and amending the terms of reference of committees.

The Executive is responsible amongst other things for discharging executive functions in accordance with the Policy Framework and Budget. Scrutiny Committees are responsible for scrutinising Executive decisions before or after they have been implemented and for holding the Executive to account.

The Audit Committee is responsible for ensuring that the assurance statements reflect the risk environment and include appropriate actions. It reviews the work of Internal Audit, receives reports from the External Auditor, reviews financial statements and ensures effective relationships between internal and external audit.

Planning, conservation and licensing are not executive functions but are exercised through the Development Control Committee and Licensing Committee under powers delegated by the Council.

Codes of Conduct for both Members and Officers are in place. There is a detailed protocol on the conduct of Members and Officers involved in the determination of planning applications and a Protocol on Member and Officer Relations. Statutory Officers also have a protocol contained in the Constitution.

During 2006/07 the Council chose to delegate decision making to Members of the Executive. A scheme of officer delegations exists and is contained within the Constitution and this deals with the management and administration of services for which specified officers are responsible. Actions by officers acting within approved delegations must comply with approved budgets, adopted procedures and Strategic and Service Plans so as to ensure that the decisions and policies of the Council are implemented. A review of the arrangements for delegated decision-making by officers and members was concluded in May 2006. Non key decisions are taken by Portfolio Holders after reference to Member Panels. The Scrutiny and Delegation arrangements will be reviewed following the Council Meeting in May 2007.

Chief Officers are responsible for and are held accountable for establishing sound arrangements including systems of internal control for the planning, appraising, authorising and controlling of their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial and non-financial performance targets. During 2006/07 there have been a number of reviews to the Chief Officer and departmental structures and this has not compromised the internal control framework.

The Head of Paid Service is responsible for and is held accountable for the corporate and overall strategic management of the Authority in accordance with Council policy. The Head of Paid Service is

responsible for establishing a framework for management direction, style and standards and for monitoring the performance of the organisation.

In accordance with the Constitution and the law, the Chief Finance Officer has statutory duties in relation to the financial administration and stewardship of the Authority. The Chief Finance Officer is responsible for the proper administration of the Authority's financial affairs, for determining and monitoring compliance with financial management standards as approved by Council, for advising on the corporate financial position and on key financial controls necessary to secure sound financial management, for providing financial information, and for preparing the revenue budget, capital programme and treasury management policy statement for approval by Council. The above duties are in line with the Chief Finance Officer's responsibilities contained in Section 151 of the Local Government Act 1972.

The Monitoring Officer is responsible for monitoring high standards of conduct and therefore provides support to the Standards Committee. The Monitoring Officer is responsible for reporting any actual or potential breaches of the law or maladministration to the Executive and for recording and reporting that key decisions are operating effectively. The Monitoring Officer is responsible for advising the Executive about whether a decision is likely to be considered contrary or not wholly in accordance with the Policy Framework. The Monitoring Officer in consultation with the Chief Finance Officer is responsible for advising the Executive where a decision is likely to be considered contrary or not wholly in accordance with the budget. The Monitoring Officer has constitutional rights to escalate matters relating to potential or actual breaches of law, maladministration, and decisions contrary to the Policy Framework to the Council where necessary. In the absence of the Monitoring Officer, the Head of Paid Service will undertake to report to the Council. The Monitoring Officer in consultation with the Chief Finance Officer has constitutional rights to escalate matters relating to any decision considered contrary or not in accordance with the Budget to the Council where necessary. In the absence of the Monitoring Officer, the Head of Paid Service in consultation with the Chief Finance Officer will undertake to report to Council.

In addition to the above reporting arrangements contained in the Constitution, the Chief Finance Officer is the statutory officer required under Section 114 of the Local Government Finance Act 1988 to report certain matters to the Authority.

A key element within the internal control environment is risk management. The Executive approved the revised Risk Management Strategy in November 2005. Throughout 2006/07 key strategic risks and actions taken to mitigate these risks have been monitored and reported to Corporate Management Team, the Audit Committee and the Executive. 2006/07 operational risks and actions taken to mitigate these risks have been monitored and reported to Corporate Management Team and the Audit Committee. Throughout 2006/07 risk management practices have continued to be embedded into the activities of the Council including the incorporation of risk opinions into all Committee reports, integration of risk management methodologies into Project Management and Service Planning processes. A significant programme of officer and member training in risk management has been delivered in 2005/06 and 2006/07.

A comprehensive Project Management Toolkit is in place which enables Chief Officers and Heads of Service to access tools and advice on how to manage projects effectively, this in turn helps support the completion of service plan actions and capital programme expenditure.

A Procurement Strategy is in place and further guidelines on procurement are contained in Contract Procedure Rules. An Officer Corporate Procurement Strategy Group further assists with compliance with procurement procedures. A recent IDeA Health Check resulted in a favourable report and the action plan is being implemented. The strategic importance of procurement in delivering value for money/effective modes of service delivery has been reinforced through training of Officers and Members. Officers have been trained on the newly adopted Procurement Toolkit. A Procurement Officer working jointly with North Hertfordshire District Council will be recruited in May 2007 to implement the Council's strategy. The Sustainable Procurement Strategy will be adopted in May 2007.

#### **4. REVIEW OF EFFECTIVENESS**

East Herts Council must conduct, 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 quarterly assurance statements made by the Chief Officers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by internal auditors the external auditors and other review agencies and inspectorates which validate the operation of internal controls.

The Authority has several specific mechanisms in place to maintain and review the effectiveness of the system of internal control these include:

- The review and production of the Best Value Performance Plan.
- An ongoing independent review of the internal control environment by Internal Audit and the production of audit opinions on the status of internal controls that are reported twice yearly to Corporate Management Team, the Audit Committee and then onto the Executive and Council.
- External Audit opinion contained in the Management Letter that is reported annually to the Audit Committee and then onto the Executive and Council.
- Internal Audit undertake regular reports to Corporate Management Team and to the Audit Committee on progress made by management in implementing both Internal and External Audit recommendations.
- Six monthly reports to the Audit Committee containing management assurances on risk management arrangements.
- Ad hoc reports arising from other outside inspectorate.
- Reviews of internal control arrangements by Corporate Management Team.
- Standards Committee arrangements.

We have been advised on the implications of the results of the above reviews of the effectiveness of the system of internal control and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## **5. SIGNIFICANT INTERNAL CONTROL ISSUES**

In May 2007 Corporate Management Team undertook an overarching review of the internal control arrangements and some aspects are not yet in place but work is scheduled to correct these omissions.

The main areas of control weakness that need to be addressed are:

- To implement health and safety risk assessments and to continue the programme of health and safety training throughout 2007/08 and to review the effectiveness of the risk assessment toolkit and training initiatives by March 2008.
- To put in place business continuity arrangements by December 2007.

The main areas of internal control requiring enhancement are:

- Throughout 2007/08 to evaluate and monitor the implementation of the Senior Management review.
- By May 2008 to monitor the effectiveness of the revisions to the Council's Constitution undertaken throughout 2007/08.
- Implementation of the Comprehensive Performance Assessment Improvement Plan and Use of Resources Judgement will continue to be monitored throughout 2007/08.
- Continued monitoring by Corporate Management Team of implementation of base budget review and Gershon efficiency measures throughout 2007/08.
- To review the Local Code of Corporate Governance by May 2008.
- To review the Council's Financial Regulations, Financial Procedures and Rules of Procedure Relating to Contracts by December 2007 to reflect the new management structure and procurement best practice.
- The Council intends to assess local risks and revise the Emergency Plan by July 2007.
- To review the application of Human Resources policies by March 2008.
- Throughout 2007/08 to monitor the implementation of the Pay and Workforce Strategy.
- By September 2007 to adopt the Council's new Cultural Strategy including measures for the long term provision of leisure facilities and to ensure that these measures are reflected in the next procurement process and performance management framework.
- To review the effectiveness of the arrangements for the declaration of interests by Members by May 2007.
- To review the effectiveness of the arrangements for officers' annual declarations in respect of arrangements for the prevention and detection of fraud and corruption by May 2007.
- To have procedure notes and manuals in place by March 2008 for all key financial systems and have processes in place for their annual review.

The Council has given due consideration to the content of the 2006/07 Statement of Internal Control and we propose to take steps to address the above matters to further enhance our internal control arrangements during 2007/08.

Signed:.....

Councillor Anthony Jackson  
Leader of the Council

Anne Freimanis  
Chief Executive (Head of Paid  
Service)

on behalf of the Members and Chief Officers of East Herts Council.

27 June 2007

East Herts Council

Assurance Framework for the 2006/07 Statement of Internal Control

