

AGENDA ITEM

## Audit Committee

DATE: 6th JUNE 2007

Statement of Internal Control 2006/2007

Paul Slocombe - Director Of Resources

### PURPOSE OF REPORT

1. Members to review the Statement of Internal Control 2006/2007.

### BACKGROUND

2. The Council is required by law to include with the final accounts a Statement on the system of Internal Control (SIC). The statement is intended to provide adequate assurance that the Council has a sound system of internal control, designed to help manage and control business risk. It is considered to be an important statement of what the Council has put in place in respect of good business practice, high standards of conduct and sound governance.
3. In addition to satisfying the requirements of the Accounts and Audit Regulations. The Statement of Internal Control is a key measure of the overall effectiveness of the Authority.
4. Within Middlesbrough Council the internal control environment operates to:
  - Support policy & decision making;
  - Ensure compliance with policies, procedures, laws & regulations
  - Ensure the economical, efficient, & effective use of resources and securing continuous improvements,
  - Enable the financial management of the Council and financial reporting
  - Support delivery of high quality services and effective performance management.

5. The SIC is compiled following a review of the effectiveness of the Council's systems of internal control. This has involved senior officers within Services, as well as officers with specific responsibilities for Internal Audit, Risk Management and the professional conduct of officers and members. The statement also reports on significant identified weaknesses and the actions undertaken to rectify these
6. The statement relates to the system of financial control as it applied during the 2006/2007 financial year. However, significant events or developments relating to the system of internal financial control that occur after this year will also be reported.
7. The Accounts and Audit Regulations require:

“The statement to be approved at a meeting of the authority or delegated committee. Whilst there is no statutory timetable for this approval, the statement must be published with the financial statements.” There is a statutory deadline for the production of the draft Statement of Accounts by 30<sup>th</sup> June each year. The full Statement of Internal Control is attached to this report.
8. The Statement of Recommended Practices (SORP) 2006 which local authorities are required to adhere to in compilation of their accounts has extended the scope of the Statement of Internal Control to cover relationships with organisations where the control/involvement by the Council is significant. Organisations identified under these arrangements include:
  - a) Dial a Ride Middlesbrough
  - b) CADCAM
  - c) Hustler Playing Fields Trust
  - d) Cleveland Accredited Training Centre
  - e) West Middlesbrough Neighbourhood Trust (WMNT)

### **Ensuring Compliance with Council Decisions, Rules and Regulations:**

9. The Standards Committee contributed to the improvement to the control environment within the Council by considering the following key items:
  - Reviewed the training requirements for Members sitting on quasi-judicial committees such as Staff Appeals, or Complaints & Appeals Committee
  - Consideration of the Ombudsman Annual Letter and Report, and implementation of an ongoing training programme for staff dealing with issues and complaints referred by the Ombudsman
  - Review of the protocol for Members and officers on Gifts and Hospitality
  - Review of the Council's Whistleblowing policy
  - Input to the Council's response to the Secretary of State on consultation on the proposed national Model Code of Conduct for Members.
10. The Council implemented a number of other developments designed to ensure improvements in performance and financial management and governance, as set out below :

- Review of the Council's Constitution in May 2006, to take account of the model constitution proposed by central government, and to reflect organisational changes, and required changes in the Executive Scheme of Delegation.
- Establishment of a formal Member Development Working Group reporting to Standards Committee
- Review of the Council's Communication Strategy leading to improved communication with employees and stakeholders, and an improved Council website
- Introduction of a standard Employee Induction Course to supplement departmental induction programmes
- Update of the Corporate Appraisal Policy
- Formation of an Audit Committee

### **Risk Management Processes**

11. During 2005/2007 the following improvements have been made to the risk management process within the Council:
- Development of an intranet site providing access to risk management documents, information, and guidance.
  - Continuation of the programme of training for Service staff.
  - Review of the Risk Management strategy
  - Development and review of Business Continuity plans across the authority
  - Production of a Risk Management Manual

### **Strong Financial Management**

12. In partnership with Aim for Excellence, a Project Management training course for relevant managers was rolled out during the 2006/2007 for existing staff. The course will be provided on a quarterly basis for all new starters and newly promoted staff managing projects.

### **Monitoring and Reporting Management Performance**

13. Improvement on Performance Management during 2006/2007 have included:
- The integrated budget and performance clinics have been used to monitor the achievement of savings identified in the Councils 2006/07 efficiency statement
  - The use of the integrated performance clinics to ensure that risk management is clearly linked to the council's priorities
  - The revision of the minimum standard for performance management to ensure that it meets changing requirements and also incorporates lessons learnt from the 2005 Corporate Assessment.
  - Continuation of the Service Assurance Statements produced by each Director and relevant Heads of Service identifying significant issues of concern requiring management action.

## **Significant Internal Control Issues**

14. Members are asked in particular to note the 'Significant Internal Control Issues', which had been raised in the 2005/2006 statement and the actions taken during 2006/2007 to address them.
15. Also within the 'Significant Internal Control Issues' section the following areas of concern which arose during 2006/2007 have been highlighted along with the action plans in place to address them:
  - Regeneration Works employment schemes. Internal Audit identified significant issues in the process and procedures being followed in these Regeneration schemes:
  - CFL Surestart Grant Monitoring and Control - Control and reconciliation procedures on Surestart schemes have been identified as an area of weakness putting the council at risk of clawback.

## **FINANCIAL CONSIDERATIONS**

16. None.

## **RECOMMENDATIONS**

17. It is recommended that Members review the Statement of Internal Control 2006/2007.
18. It is recommended that Members note in particular the reported internal control issues' section within the statement and summarised in paragraph 10.

## **REASONS**

19. The recommendations are supported by the requirement to comply with Regulation 4(2) of the Accounts and Audit Regulations 2003, which requires English authorities to "conduct a review at least once a year of the effectiveness of its systems of internal control." A Statement of Internal Control must be included within the Statement of Accounts 2006/2007.

## **BACKGROUND PAPERS**

- Accounts and Audit Regulations 2003
- Service Assurance Statements
- Closure of accounts working papers

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