

STATEMENT OF INTERNAL CONTROL SCOPE OF RESPONSIBILITY

Appendix D

Middlesbrough 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.

Middlesbrough 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 economy, efficiency and effectiveness. In discharging this overall responsibility, Middlesbrough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of our functions and which includes arrangements for the management of risk.

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. The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of Middlesbrough Council's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place within Middlesbrough Council for the year ended 31st March 2005 and up to the date of approval of the annual report and accounts.

THE INTERNAL CONTROL ENVIRONMENT

In January 2004 the members of Middlesbrough Council approved "The Code of Corporate Governance". This code sets out the Council's policy in relation to corporate governance - which is used to help the Council direct and control its functions. This control environment which underpins the credibility and confidence in the Council includes:

Regular reviews by the Council of progress against its corporate plans/ objectives:

- Publication of its Annual Corporate Review;
- Annual Statement of Accounts;
- Middlesbrough Borough Council Corporate Performance Plan (by 30 June annually);
- Summary Performance Plan (by 31 March annually);
- Community Strategy which is reviewed at least every 3 years, with a Delivery Plan reviewed annually;
- Comprehensive Performance Assessment (CPA) Improvement Plan.

Clear Policy and Decision Making:

The council has in place a clearly documented and understood management processes for policy development, implementation and review and for decision making, monitoring and control, and reporting; and formal and procedural and financial regulations to govern the conduct of the authority's business. These processes are detailed in the following documents:

- Constitution
- Scheme of Delegation to Officers
- Financial Procedure Rules
- Independent Allowances & Remuneration Panel
- Scheme of Delegation to Individual members of the Executive
- Executive Members Performance Management Procedures
- Formal scrutiny process

Ensuring Compliance with Council Decisions, Rules and Regulations:

Like all local authorities, Middlesbrough operates within a statutory framework which governs the behaviour of elected members and officers, in addition it has established a Standards Committee. The following officers also have a specific duty to ensure that the Council acts within the law and uses its resources wisely.

- Chief Executive (Head of Paid Service)
- Monitoring Officer
- Head of Legal services
- Director of Resources

Robust Risk Management Processes

The Council has continued to progress the development and embedding of risk management, both corporately, and across all Service areas during 2004/2005. Major developments have included: -

- The adoption of a formal Risk Strategy, Chance or Choice.
- The establishment and initial meetings, and training of a 'Risk Forum' Group to co-ordinate and promote Risk Management across the Authority.
- Formal presentations to all Services' Senior Management Teams promoting Risk Management, and explaining the format being adopted for its development by the Authority.
- The inclusion of requirements in relation to Risk Management in the Council's Performance Management Minimum Standards.
- The inclusion of consideration of risk in all Service Plans.
- The development of a Strategic Risk Register for the Authority and all Services, reviewed and reported to CMT on a quarterly basis.
- Introducing formal "Risk Events" at the planning stage of major projects, involving all interested staff and partner organisations.
- Continuing the programme of training for Service staff.

Developments already implemented or planned for 2005/2006 include: -

- Amendment of the Council's scheme of delegation to include
 1. The role of "Risk Management Champion" in the portfolio of the Deputy Mayor.
 2. "Issues relating to Corporate Risk Management" in the responsibilities of the Executive.
- The adoption of responsibilities for Risk Management by the Chief Executive.

- The appointment of Risk Champions within each Service area, and the expansion of the 'Risk Forum' Group to include them.
- Following the planned review of the Risk Strategy and Strategic Risk Register the development of a more sophisticated Policy and Strategy, and format for the Risk Register.
- Formal Risk Awareness training for all Members.
- More detailed Risk Management training for Service Risk Champions, potentially leading to them being able to achieve an intermediate-level qualification in the subject.
- The introduction of less detailed training for other staff with specific responsibilities for managing risk.
- Risk awareness raising for all staff, including by use of articles in the internal Middlesbrough Matters newsletter.
- The development of an intranet site providing access to risk management documents, information, and guidance.

Strong Financial Management

The system of internal financial control is based upon a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a structure of delegation and accountability. Internal financial controls include:

- The establishment of key controls within the accounting systems of the Council;
- A robust system of budgetary control including formal quarterly and annual financial reports which indicate financial performance up to year end and include action plans for dealing with pressure areas;
- Setting targets to measure financial and other performance;
- The production of regular financial reports at various levels within the Council which indicate actual expenditure against budgets;
- A clear and concise capital appraisal process for prioritising and approving all capital projects;
- In partnership with IPF produced a financial management training course for all budget managers and senior staff. This was rolled out during the first quarter of 2005/2006 for existing staff. The course will then be provided on a quarterly basis for all new starters and newly promoted staff. The course has been incorporated into the Councils corporate induction process;
- Clearly defined capital expenditure guidelines;
- Use of appropriate project management disciplines;
- Participation in the National Fraud Initiative and subsequent investigations;
- Membership of the North East Fraud Forum;
- Incremental implementation of the Verification Framework for the administration of Council Tax and Housing Benefit;
- A significant element of the Councils financial processes are delivered by HBS, the Councils Strategic Partner. The process and discipline of internal controls is also applied to the activities of HBS.

Revision of all Financial Procedures and Systems

As part of the implementation of a new Financial Management system (SAP) all financial

procedures, systems and controls were reviewed and significantly altered for all the Council's services. The control environment of the Council has been improved by:

- Extensive training was provided to all Council and HBS Service Middlesbrough financial and support staff on the Procurement / Debtors / Budget Management / Asset Management / Grant monitoring procedures. Extra resources have been provided to ensure the continuous provision of a range of SAP courses for all new starters and staff changing jobs;
- The training programme and the reviews undertaken as part of the SAP implementation were completed during 2004/05. This has led to a greater degree of stability and confidence in the financial control environment for the authority.
- The introduction of SAP has also allowed the access & authorisation processes to be further tightened across the authority;
- District Audit has concluded, based on the findings of work undertaken in reviewing the system implementation that there are well developed control environment supporting a complex system with a high number of feeder systems. The review highlighted a number of areas for improvement and corrective actions will be implemented by the end of September 2005/2006.

Members approved the Council's new Prudential capital code framework to start on the 1st April 2004 and the code was also endorsed by the council's external audit.

The Internal Audit Function

The effectiveness of internal control is audited and assessed by the internal audit function under the direction of the Director of Resources and in accordance with appropriate codes of practice.

Internal Audit provides management with assistance and independent guidance on systems, processes and risks and through its work forms a view on the strength of the component controls and the overall control framework.

The Internal Audit function operates under the Local Government Accounts and Audit Regulations, which require the maintenance of an adequate and effective system of internal audit of accounting records and control systems, and full assistance from officers and members in the provision of documents, records, information and explanation to enable the proper fulfillment of those audit responsibilities. The work of the Section is guided by and reflects professional best practice, in particular the CIPFA Code of Practice on Local Government Internal Audit and locally by the policies, procedures, rules and regulations established by the Authority.

The internal audit function, which works closely with the external auditor, undertakes a planned programme approved by the Overview and Scrutiny Board covering all the Council's activities. The programme includes independent reviews of the systems of internal control and risk management.

The overall objective of Internal Audit is to provide an independent and objective appraisal function, for reviewing and reporting upon the overall system of internal control.

This work encompasses both operational and developing systems. Through this responsibility Internal Audit:

- Facilitate good practice in managing risks;
- Contribute to ensuring sound resource management;
- Recommend improvements in control, performance and productivity;
- Provide reassurance and challenge to managers;
- Encourage development of consistent policies and high standards;
- Assist in the impartial investigation of irregularities and policy breaches;
- Support the achievement of statutory and best practice requirements.

The Director of Resources is the nominated s151 Officer and also has line management responsibility for the Internal Audit Manager. The Internal Audit Manager has direct access to the Chief Executive and other Corporate Directors and has well established reporting lines to members. As part of the constitution, the Council has designated the Overview and Scrutiny Board as its audit Committee

Its terms of reference, which accord with best practice guidelines, are as follows:

- To review the adequacy of Council's internal control framework;
- To review the adequacy of plans, procedures and practices to ensure compliance with statutory and other guidance;
- To monitor the performance of the Council's internal audit function; and
- To consider the external audit plan.

The Internal Audit Manager reports audit findings to Heads of Service and action is agreed to address these findings as necessary. Each Head of Service is responsible for operating systems of internal control within their area of responsibility, which provide reasonable assurance of effective and efficient operations, reliable information and compliance with laws and regulations. A report on audit activity together with details of internal audit will be made to the Overview and Scrutiny Board.

Internal Audit has concluded, based on the findings of work undertaken that there are sound systems of internal financial control in place. A number of areas for improvement have been identified and will be implemented on an agreed and phased basis subject to the level of risk.

Monitoring and Reporting Management Performance

Performance management reporting has now become part of the regular quarterly monitoring process of the council. Services are required to report progress against national Key Performance Indicators as well as locally set improvement targets.

Improvements on performance management during 2004/05 have included

- The integration of performance and budget monitoring reporting at key points during the year
- Improvement of corporate capacity by introducing additional strategic management resources within ICT, human resources, communications and partnership management
- Introduction of a minimum standard for performance management

Improvement for Performance Management planned for 2005/2006 include:

- The integrated budget and performance clinics will be used to monitor the achievement of savings identified in the Councils 2005/06 efficiency statement
- The integrated performance clinics will be used to ensure that risk management is clearly linked to the council's priorities
- The minimum standard for performance management will be further revised to ensure that it meets changing requirements and also incorporates lessons learnt from the 2005 Corporate Assessment.

REVIEW OF EFFECTIVENESS

Middlesbrough Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of Internal Audit and the Statutory officers within the authority who have a responsibility for the development and maintenance of the internal control environment, and also by comments made by our external auditors and other review agencies and inspectorates. In determining the effectiveness of the system of internal control review activities have been undertaken by a number of parties. These include:

- The authority
- Statutory officers
- The Scrutiny panel process
- Internal Audit
- External audit
- Other inspection and review agents

For the year under consideration, the key internal assurance work has been provided through Internal Audit and this is reported earlier in the statement.

The main external bodies for Social Services Children's Service (CSCI Fostering inspection), Inspection of Social Care Services for Older People (SCSI), Corporate (CPA) and Audit Commission (application of the Disability Discrimination Act 1995) carried out reviews during 2004/2005. The Council will be carrying out the action plans resulting from the reviews over 2005/2006.

The Benefit Fraud Inspectorate made a series of recommendations in their CPA assessment of the benefit service during 2004/2005. The main area centered around the Verification Framework and the fact that Middlesbrough Council was not fully compliant with the three modules set down by Central Government. During this financial year, two modules were undertaken by HBS on behalf of Middlesbrough Council and the remaining module (new claims) will be evaluated during 2005/ 2006 to see if this is a viable option for Middlesbrough Council.

The following major reviews are due during 2005/006:

- Benefit Fraud Inspectorate
- Review of Financial Management (Audit Commission)
- Children's Trust (Audit Commission)

Matters raised by our external auditors have been addressed as they have arisen during the course of the year. The advice will be reflected in the management letter which will be issued during 2005/06.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Council, the Executive and the Overview and Scrutiny Board, and a plan to address weakness and ensure continuous improvement of the system is in place.

SIGNIFICANT INTERNAL CONTROL ISSUES

The Internal Control environment has highlighted, at the end of 2004/2005, a number of areas of concern requiring improvement and / or careful monitoring. CIPFA guidance on the definition of a "significant internal control issue" (in relation to the Accounts & Audit Regulations 2003) has been used to identify appropriate issues for inclusion within this statement

Areas requiring Improvement (2003/2004 Statement)	Action taken 2004/2005
Revenues and Benefits Processes and procedures within Council Tax/NNDR had been identified as a potential area of significant risk.	A detailed review has been undertaken by Internal Audit with the support of an external consultant. The Director of Resources chaired an improvement team with the support of the Council's Strategic Partner to address the area of concern. A series of reviews of exemptions and discounts were completed.
Payroll The initial findings of the internal audit review of Payroll has identified that general controls are not working effectively..	The audit concluded during 2004/2005 and the main issues are shown in the table below.

2004/2005 Areas requiring Improvements	Action Taken / Planned 2005/2006

<p>Housing & Council Tax Benefit Control and checking procedures within Benefits section have been identified as an area of significant risk.</p>	<p>1. Improved guidance and instructions issued to staff to ensure a clear audit trail exists from receipt of an application to decision to award benefit. 2. New quality monitoring arrangements will be put in place by the Councils Strategic Partner and these will be supported by the Councils client benefits unit</p>
<p>Cash Receipting & Income Reconciliation backlogs have compromised the controls on the collection and banking of income.</p>	<p>1. The cash receipting/income suspense accounts have all been brought up to date 2. New arrangements for reconciliation monitoring will be put in place by the Councils Strategic Partner.</p>
<p>Payroll The Internal audit report identified Issues around control processes applied to key documents and the appropriate type and level of checking</p>	<p>1. The Councils Strategic Partner will improve control over, and accessibility to, source documents. 2. A random sample of payroll documents will be checked by HBS to confirm that officers with appropriate authority certify them</p>
<p>Procurement There is evidence of weaknesses in authorisation and approval procedures within the IT system</p>	<p>1. Improvements in the functionality of the SAP system will be made. 2. Additional instructions concerning authorising payroll documents will be issued to all Council.</p>

The control issues identified by the District Audit reviews of the implementation of the Financial Information System (SAP) and the application of the Disability Discrimination Act 1995

2004/2005 Areas requiring Improvements	Action Taken / Planned 2005/2006
Over reliance on manual intervention by ICT for extracting feeder files prior to interface with SAP	Detailed procedural notes prepared. Review of processes with the aim of automating all interfaces into SAP
Excessive users with full access to application, in particular 'Consultant' access to SAP	Review of access for consultants.
Lack of end to end source system to SAP reconciliation's – possibly resulting from a lack of ownership	Complete reconciliation processes to be implemented and regularly carried out.
Excessive number of users with access to the journals process in SAP	Review of staff access.
Bank reconciliation deficiencies contributed to by an under-developed understanding of processes	Monthly Bank Reconciliation's will be completed and verified independently
Progress on the implementation of DDA act requirements has been slow	Employment of an officer to deal specifically with DDA and the allocation of additional funding

The Council also recognises emerging control issues requiring attention during 2005/2006

Emerging Areas for Further Investigation	Action Planned 2005/2006
There is insufficient capacity within the Internal Audit function and hence a risk that the audit plan will not be fulfilled.	Employment of agency staff in the short term. Use of a consultant to review the future provision of the audit function.
The demand for In house project management skills is growing and the capacity within the authority is limited.	Joint training course with IPF to expand and improve project management skills across the authority.

The following action will be taken during 2005/2006 to ensure full compliance with Accounts and Audit Regulations 2003.

Further development of the framework of internal control with a central record of internal control weaknesses monitored by the corporate governance review group.

Officer and Member Review

On the basis of the self-audit processes and effectiveness reviews carried out to date, we are satisfied that, except for the areas of concern listed above, the Council's corporate governance procedures, including the systems of internal control, are adequate and are operating effectively.

We are satisfied that the Council's management arrangements, supplemented by the continued officer and Member involvement in the corporate governance processes, will address the required improvement and continue to review their development and effectiveness on an ongoing basis.

Signed:.....

(Mayor)

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(Chief Executive)

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(Director of Resources)