

AGENDA ITEM

## Corporate Affairs Committee

DATE: 31<sup>st</sup> May 2006

Statement of Internal Control 2005/2006

Paul Slocombe - Director Of Resources

### PURPOSE OF REPORT

1. To seek members approval of the Statement of Internal Control 2005/2006.

### 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 by 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 2005/2006 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. During 2005/2006 the following improvements have been made to the control environment within the Council:

### **Risk Management Processes**

- 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’s department.
  - 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.
9. Members are asked in particular to note the ‘Significant Internal Control Issues’, which had been raised in the 2004/2005 statement and the actions taken during 2005/2006 to address them.

10. Also within the 'Significant Internal Control Issues' section the following areas of concern which arose during 2005/2006 have been highlighted along with the action plans in place to address them:
- Housing Bureau -The Internal audit report identified significant issues around control processes applied to training/trainers and the appropriate type and level of checking
  - Home improvement Grants - Processes and procedures within the Housing Improvement Grant Section have contributed to produce an environment where there are high risks of:
    - Fraud
    - Grant payments exceeding the maximum amount; and
    - Inability to demonstrate all building work undertaken was satisfactory
  - Goods Receipting Control Account - Control and reconciliation procedures on this important account have been identified as an area of significant weakness.

## **FINANCIAL CONSIDERATIONS**

11. None.

## **RECOMMENDATIONS**

12. It is recommended that Members approve the Statement of Internal Control 2005/2006.
13. It is recommended that Members note in particular the reported internal control issues' section within the statement and summarised in paragraph 10.

## **REASONS**

14. 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 2005/2006.

## **BACKGROUND PAPERS**

- Accounts and Audit Regulations 2003
- Closure of accounts working papers

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