

STATEMENT OF INTERNAL CONTROL SCOPE OF RESPONSIBILITY

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 the Council and Teesside Pension Fund 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 and Teesside Pension fund for the year ended 31st March 2006 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 and Teesside Pension Fund direct and control its functions. These key elements of the control environment, which underpins the credibility and confidence in the Council and the Pension fund, include:

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

- Annual Statement of Accounts;
- Middlesbrough Borough Council Corporate Strategic 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
- Independent Teesside Pension Fund panel

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 2005/2006. Major developments over recent years have included: -

- The adoption of a formal Risk Strategy, Chance or Choice.
- 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 use of a Strategic Risk Register for the Authority and all Services, reviewed and reported to CMT on a quarterly basis.
- Introduction of formal "Risk Events" at the planning stage of major projects, involving all interested staff and partner organisations.
- 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 the responsibility 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.
- Detailed Risk Management training for Service Risk Champions, potentially leading to them being able to achieve an intermediate-level qualification in the subject.
- Regular meetings of a 'Risk Forum' Group co-ordinating and promoting Risk Management across the Authority.

- Formal Risk Awareness training for all Members.
- Risk awareness raising for all staff, including the use of articles in the internal Middlesbrough Matters newsletter.

Developments already implemented or planned for 2006/2007 include: -

- An intranet site providing access to risk management documents, information, and guidance.
- Continuing the programme of training for Service staff.
- Review of the Risk Management strategy
- Review of Business Continuity plans across the authority
- Risk Management Manual

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 has been 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 is delivered by HBS, the Councils Strategic Partner. The process and discipline of internal controls is also applied to the activities of HBS.
- The role out of a corporate procurement strategy to all services.
- Ongoing training for 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 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 Councils 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 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 is made regularly 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.

Improvement on Performance Management during 2005/2006 have included:

- The integrated budget and performance clinics have been used to monitor the achievement of savings identified in the Councils 2005/06 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.

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 following external bodies for: Education - Annual Performance Assessment (OFSTED & CSCI), Children's Service (CSCI Fostering inspection), Inspection of Children's Service by the Audit Commission, and Corporate (CPA) by the Audit Commission carried out reviews during 2005/2006. The Council will be carrying out the action plans resulting from the reviews over 2006/2007.

The Benefit Fraud Inspectorate made a series of recommendations in their CPA annual assessment of the benefit service during 2005/2006. The main concern centered around the Verification Framework and the fact that Middlesbrough Council are still not fully compliant with the three modules set down by Central Government. Two modules were undertaken by HBS on behalf of Middlesbrough Council during 2004/2005 and the remaining module (new claims) will be implemented during 2006/2007.

The following major reviews are due during 2006/007:

- Benefit Fraud Inspectorate
- DWP Annual Benefit Review Team
- Benefits ISO 9000/2000 Assessment
- Adult community mental health services (Healthcare Commission and the Commission for Social Care Inspection)
- Education - Annual Performance Assessment (OFSTED & CSCI)
- Children's Service (CSCI Fostering inspection),
- Children's Service (CSCI Adoption inspection),
- Community Protection Advice Centre – Legal Services 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 2006/07.

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 2005/2006, 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 (2004/2005 Statement)	Action taken 2005/2006
Housing & Council Tax Benefit Control and checking procedures within Benefits section have been identified as an area of significant risk.	1. Improved guidance and instructions were 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 have been put in place by the Councils Strategic Partner and these are supported by the Councils client benefits unit
Cash Receipting & Income Reconciliation backlogs have compromised the controls on the collection and banking of income.	1. The cash receipting/income suspense accounts have all been brought up to date 2. New arrangements for reconciliation monitoring have been put in place by the Councils Strategic Partner.
Payroll The Internal audit report identified Issues around control processes applied to key documents and the appropriate type and level of checking	1. The Councils Strategic Partner has improved 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
Procurement There is evidence of weaknesses in authorisation and approval procedures within the IT system	1. Improvements in the functionality of the SAP system have been made. 2. Additional instructions concerning authorising payroll documents have been issued to all staff.

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

Areas requiring Improvement (2004/2005 Statement)	Action taken 2005/2006
Over reliance on manual intervention by ICT for extracting feeder files prior to interface with SAP	Detailed procedural notes have been 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	A review of access for consultants has been undertaken and a control procedure put in place.
Lack of end to end source system to SAP reconciliation's – possibly resulting from a lack of ownership	A major review has been started by the Councils Strategic Partner and is ongoing during 2006/2007 to map all processes and put in place robust end-to-end reconciliation's.
Excessive number of users with access to the journals process in SAP	A review of staff access has been undertaken and the numbers reduced.
Bank reconciliation deficiencies contributed to by an under-developed understanding of processes	Monthly Bank Reconciliation's have been completed and verified independently by the Deputy Director of Finance. In 2006/2007 the independent verification of the monthly Bank Reconciliation's will continue by the

	Deputy Director of Finance.
Progress on the implementation of DDA act requirements has been slow	A new post has been created to deal specifically with DDA and the allocation of additional funding.

The Council also identified the following control issues requiring attention during 2005/2006

Emerging Areas for Further Investigation	Action taken 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 over the year. Re-advertisement of vacant posts A review of the future provision of the audit function by an outside consultant.
The demand for In house project management skills is growing and the capacity within the authority is limited.	A tender exercise was undertaken to appoint an external trainer to set a minimum standard and improve project management skills across the authority. The training will commence during June 2006/2007.

2005/2006 Areas requiring Improvements	Action Taken / Planned 2006/2007
Regeneration Service – Housing Bureau The Internal audit report identified Significant issues around control processes applied to training/trainers and the appropriate type and level of checking	1. The problems were on such a scale that the Housing Bureau was closed from the 1 st April 2006 2. The service has made arrangements for all trainees to complete their training. 3. Discussions are ongoing with the relevant funding body about possible grant claw back.
Home improvement Grants Processes and procedures within the Housing Improvement Grant Section have contributed to produce an environment where there are high risks of: <ul style="list-style-type: none"> ▪ Fraud ▪ Grant payments exceeding the maximum amount; and ▪ Inability to demonstrate all building work undertaken was satisfactory 	1. The service has appointed consultants to assist with the introduction of a more robust control environment. 2. Increased frequency of monitoring by senior managers

<p>Goods Receipting Control Account Control and reconciliation procedures on this important account have been identified as an area of significant weakness</p>	<ol style="list-style-type: none"> 1. New arrangements for regular reconciliation & monitoring are to be put in place by the Councils Strategic Partner. The Deputy Director of Finance will monitor the reconciliation's. 2. Improved guidance and instructions are to be issued to staff together with appropriate training to ensure orders and goods receipting are dealt with correctly.
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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)