

Income and Expenditure Account

Year ended 31st March 2007

2005/06 Net £'000		Note	Gross Exp £'000	Gross Inc £'000	2006/07 Net £'000
1,511	Central Services to the public		16,332	14,636	1,696
34,454	Cultural, environmental and planning services		63,350	24,703	38,647
79,348	Education services		132,287	115,283	17,004
6,441	Highways, roads and transport services		18,991	7,320	11,671
(675)	Housing services		59,686	63,664	(3,978)
43,491	Social Services		94,477	44,284	50,193
(8,759)	Exceptional Item		0	0	0
138	Court Costs		1,391	902	489
3,043	Corporate and democratic core		3,356	45	3,311
3,018	Non Distributed Costs		3,094	18	3,076
162,010	Net cost of services	1	392,964	270,855	122,109
12,074	Loss/(Gain) on the Disposal of Fixed Assets	15			(407)
8	Parish council precepts				9
(1,001)	(Surpluses)/deficits on trading undertakings	16			(729)
5,064	Interest Payable				5,244
83	Contribution of housing cap. receipts to Govt.Pool				67
(23)	Losses on the repurchase of borrowing				(23)
(2,177)	Interest and investment income				(3,689)
23,257	Pension Interest Cost	45			24,842
(18,779)	Expected Return on Pension Assets	45			(23,327)
180,516	Net operating expenditure				124,096
(40,291)	Demand on the Collection Fund				(43,009)
870	Transfers (from)/to the Collection Fund in respect of surpluses/deficits				(111)
(91,203)	General government grants				(14,890)
(46,322)	Non - domestic rates redistribution				(59,795)
3,570	(Surplus)/Deficit for Year				6,291

Statement of movement on the general fund balance

2005/06 £'000		2006/07 £'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
0	Amortisation of intangible fixed assets	0
(10,409)	Depreciation and Impairment of fixed assets	(12,082)
15,449	Government Grants Deferred amortisation	14,966
(12,469)	Write down of deferred charges to be financed from capital resources	(14,588)
(12,074)	(Loss)/Gain on the Disposal of Fixed Assets	407
(9,157)	Net change for retirement benefits in accordance with FRS 17	(18,582)
(28,660)		(29,879)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
3,647	Minimum revenue provision for capital financing	3,926
1,256	Capital expenditure financed from revenue	876
(83)	Transfer from Usable Capital Receipts equal to the contribution to Housing Pooled Capital Receipts	(67)
12,769	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	14,770
17,589		19,505
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
(109)	Housing Revenue Account balance	0
259	Voluntary revenue provision for capital financing	442
(124)	Transfers to/from insurance reserve	(172)
4,881	Transfers from other earmarked reserves	3,455
4,907		3,725
(6,164)	Net additional amount (Credited)/Debited to the General Fund balance	(6,649)
(2,594)	Net change (Credited)/Debited to the General Fund balance	(358)
(4,865)	Balance on General Fund brought forward	(7,841)
(382)	Prior year adjustment-Cheque book school	0
(7,841)	Balance on General Fund carried forward	(8,199)

Statement of movement on the general fund balance

N.B. the general fund balances figure excludes schools balances. A summary of the schools balances position is shown below:-

2005/6		2006/7
£000		£000
(4,727)	Balances attributable to schools budgets b/fwd	(4,503)
(158)	(Surplus)/Deficit in year	(438)
382	Prior Year Adjustment - Overstated Cheque Book School Figure	0
(4,503)	Balances attributable to schools budgets c/fwd	(4,941)

The statement of movement on general fund balance above reconciles the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

Statement of Total Recognised Gains and Losses (STRGL)

2005/6 £000		2006/7 £000
(3,570)	Surplus/(Deficit) for the year on the Income and Expenditure Account	(6,291)
2,335	Gains/losses on the Other Fixed Asset Movements	(3,507)
15,181	Surplus/(Deficit) for the year on the Revaluation of Fixed Assets	39,464
(110)	Surplus/(Deficit) for the year on the Revaluation of Long Term Investment	(48)
7,227	Actuarial gains/losses on pension fund assets and liabilities	22,143
(2,514)	Gains/losses on Capital Contributions Unapplied Reserve	(320)
126	Gains/losses on Capital Grants Unapplied Reserve	2,522
0	Gains/losses on Direct Revenue Financing	(5)
(1,163)	Gains/losses on Insurance Reserves	375
1,140	Gains/losses on the Collection Fund Balance	(553)
18,652	Total recognised gains for the year	53,780
	Reconciliation with the Movement in Net Worth	
106,308	Net Worth at Start of Year	124,960
124,960	Net Worth at End of Year	178,740
18,652	Net Worth Change in Year	53,780
	Note: the Net Worth at the start of 2005/6 needs to be restated due to the change in the Balance Sheet format:	
219,772	Net Worth shown at the start of 2005/6 in the 2005/6 Statement of Accounts	
113,579	Removal of Government Grants Deferred from Net Worth	
(115)	Removal of the Non Middlesbrough element of the Collection Fund Balance from Net Worth	
106,308		

Balance Sheet

31st March 06 £'000		Notes	31st March 07 £'000
	FIXED ASSETS		
0	Intangible Fixed Assets		0
	Tangible Fixed Assets		
	Operational Assets	18	
314,954	Other Land & Buildings		358,552
3,720	Vehicles / Plant & Equipment		4,495
59,573	Infrastructure Assets		63,375
8,240	Community Assets		6,279
	Non Operational Assets	18	
22,917	Investment Properties		22,594
14,589	Assets under construction		5,606
16,575	Surplus Assets Held for Disposal		11,622
440,568	Total Fixed Assets		472,523
1,356	Long-term Investments	29	1,308
1,499	Long-term Debtors	30	1,192
132	Premium on Early Repayment of Debt	38	88
443,555	Total Long Term Assets		475,111
	Current Assets		
1,476	Stock & Work In Progress	31	1,909
291	Landfil Tax Allowance	25	162
53,362	Debtors & Payment In Advance	32	37,735
38,200	Short-term Investments		60,900
119	Cash in hand		113
0	Cash and Bank		9,877
537,003	Total Assets		585,807
	Current Liabilities		
0	Short Term Loans		0
34,654	Creditors & Income In Advance	33	44,715
3,161	Bank Overdraft		0
499,188	Total Assets less Current Liabilities		541,092
	Long Term Liabilities		
97,090	Long-term Borrowing	34	99,184
4,552	Provisions	36	4,523
127,280	Government Grants Deferred	37	131,988
944	Deferred Discounts on Early Repayment of Debt	38	627
144,362	Pensions Liability	45	126,030
124,960	Total Assets less Liabilities		178,740

Balance Sheet

31st March 06 £'000		Notes	31st March 07 £'000
	Financed by:		
16,501	Fixed Asset Restatement Account	40	42,518
201,958	Capital Financing Account	41	201,363
14,333	Usable Capital Receipts Reserve	42	19,216
75	Deferred Capital Receipts	43	75
(144,362)	Pensions Reserve	45	(126,030)
140	Major Repairs Reserve - HRA		0
7,841	General Fund Balance		8,199
2,076	Housing Revenue Account Balance		0
26,398	Earmarked Reserves	39	33,399
124,960	Total Net Worth		178,740

Note: The effects of the 2006 SORP and changes to accounting treatments of certain items has resulted in changes to the 2005/2006 Balance Sheet. An explanation of these changes can be found in Note 17.

Cash Flow Statement

31st March 06 £'000		Notes	31st March 07 £'000
	Revenue Activities		
	Cash Outflows	49	
159,657	Cash paid to and on behalf of employees		162,725
155,172	Other operating cash payments		148,000
46,700	Housing Benefit Paid Out		47,371
7,509	Precepts Paid		8,139
31,097	NNDR paid to National Pool		32,663
400,135	Total Revenue Cash Outflows		398,898
	Cash Inflows	49	
(5,145)	Rents (after rebates)		(5,106)
(35,257)	Council Tax Income		(37,141)
(46,322)	NNDR receipts from National Pool		(59,795)
(30,065)	Non-domestic rate receipts		(32,582)
(91,203)	Revenue Support Grant		(14,890)
(45,770)	DWP grants for benefits		(47,232)
(78,018)	Other government grants	53	(149,166)
(78,483)	Cash received for goods and services		(84,511)
(1,583)	Other operating cash receipts		(2,127)
(411,846)	Total Revenue Cash Inflows		(432,550)
(11,711)	Net Cash Flow Revenue Activities	49	(33,652)
	Returns on Investments and Servicing of Finance		
	Cash Outflows		
5,038	Interest Paid		5,180
0	Interest element of finance lease rental payments		0
5,038			5,180
	Cash Inflows		
(2,447)	Interest received		(3,927)
2,591	Net Cash Outflow from Return on Investments and Servicing of Finance		1,253
	Capital Activities		
	Cash Outflows		
35,937	Purchase of fixed assets		17,650
0	Purchase of long-term investments		0
12,403	Other Capital Cash Payments		14,588
48,340			32,238

Cash Flow Statement

31st March 06 £'000		Notes	31st March 07 £'000
	<i>Cash Inflows</i>		
(16,088)	Sale of fixed assets		(10,282)
(24,016)	Capital grants received	54	(21,112)
(2,454)	Other capital cash receipts		(2,177)
0	Disposal of subsidiary undertakings		0
(42,558)			(33,571)
5,782	Net Cash Inflow from Capital Activities		(1,333)
(3,338)	Net Cash Inflows/Outflows before Financing		(33,732)
	Management of Liquid Resources		
4,600	Net increase/(decrease) in short term deposits	51	22,700
0	Net increase/(decrease) in other liquid resources		0
	Financing		
	<i>Cash Outflows</i>		
0	Repayments of amounts borrowed		0
0	Capital element of finance lease rental payments		0
	<i>Cash Inflows</i>		
(6,000)	New loans raised		(2,000)
0	New Short term loans		0
(4,738)	Net (Increase)/Decrease in Cash	50	(13,032)

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 Accounting Code of Practice on Local Authority Accounting in Great Britain 2006 and the Statement of Recommended Practice (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 group entities where the activities are significant. The implications of this change from 2005/06 are set out later in this document.

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 2007 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 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.

Statement of Internal Control *continued*

Clear Policy and Decision Making:

The council has in place a clearly documented and understood management process 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. 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

The Council established a Standards Committee in 2005/06 and it makes a significant contribution to internal control. The Committee has identified a number of items to be addressed on a regular or a one off basis, many of which have an impact on the Council's overall performance, financial management, risk management, and governance. Some of the key items considered in 2006/07 are set out below.

Review of 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

The following key work areas to be undertaken by the Standards Committee in 2007/08 will include :

- Implementation of Members Induction Programme in 2007 to provide comprehensive and detailed training programme for Members;

Statement of Internal Control *continued*

- Provision of information to the national Standards Board on a periodic basis on alleged breaches of the Member Code of Conduct and how they have been dealt with;
- Ethical audit of the Council's Corporate Governance Arrangements

Other Developments in 2006/07

The Council has 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

A major development, which will strengthen the internal control system, is the establishment of an Audit Committee in June 2007. The purpose of an Audit Committee is to provide independent assurance of the adequacy of the internal control environment, and to oversee the financial reporting process. To achieve these aims, the committee will be responsible for a number of key functions as set out below :

- The review of internal audit strategy, annual plan and performance, plus review of summary internal audit reports, and seeking assurance that action has been taken as necessary;
- Consider where appropriate the reports of external audit and inspection agencies.
- Consider the effectiveness of the authority's risk management arrangements, and seek assurances that action is taken on risk related issues identified by auditors and inspectors;
- Ensure that the authority's assurance statements, including the Statement of Internal Control, properly reflect the risk environment and any actions required to improve it;
- Ensure that there are effective working relationships between external and internal audit, inspection agencies, and other relevant bodies, and that the value of the audit process is actively promoted.

Statement of Internal Control *continued*

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 2006/2007. Major developments over recent years have included: -

- Amendment of the Council's scheme of delegation to include
 - The role of "Risk Management Champion" in the portfolio of the Deputy Mayor.
 - "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.
- Establishment of an intranet site providing access to risk management documents, information, and guidance.
- 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

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;
- 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;
- Adherence to Prudential Indicators approved by Council to ensure the Council only undertakes capital expenditure for which it can afford both the financing costs and the running costs;

Statement of Internal Control *continued*

- Provision of a financial management training course for all new budget managers in partnership with IPF;
- Participation in the National Fraud Initiative and subsequent investigations;
- Membership of the North East Fraud Forum;
- 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, and review of procurement levels during 2006/07.
- 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.
- 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.

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.

Statement of Internal Control *continued*

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 Council's 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 had designated the Overview and Scrutiny Board as its audit committee, however, as referred to earlier in this document, the Council formally established an Audit Committee in June 2007 to be operational from Summer 2007. It will take over some of the responsibilities of the Overview and Scrutiny Board.

The terms of reference for Overview and Scrutiny Board for 2006/07, 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.

Statement of Internal Control *continued*

Improvement on Performance Management during 2006/2007 have included:

- Development and improvement of the integrated budget and performance clinics which were introduced in 2005/06, and which have been used to monitor the achievement of savings identified in the Councils 2006/07 efficiency statement
- The revision of the minimum standard for performance management to ensure that it meets changing requirements and also incorporates lessons learnt from the 2006 Corporate Assessment.
- Continuation of the Service Assurance Statements produced by each departmental Director and also by relevant Heads of Service identifying significant issues of concern requiring management action.

Improvements for Performance Management planned for 2007/2008 include:

- The introduction of the Local Area Agreement (LAA) is intended to bring closer working between the Council and the relevant departments, and with Middlesbrough Partnership, to ensure more coordinated delivery of services.

The Extension of the Statement of Internal Control (SIC) to cover Group activities

Middlesbrough Council produces a set of group accounts which are included within its overall Statement of Accounts. The group accounts include other organisations in which the Council is deemed to have control, either by the level of shareholding or other means, significant enough for the organisation to be considered part of the overall group. From 2006/07 onwards, the Accounting Code of Practice on Local Authority Accounting in Great Britain 2006 and the Statement of Recommended Practice require the SIC to be extended to cover group activities. There are five organisations at 31 March 2007 whose accounts are either included in full or in part in the Council's group accounts as set out below, and whose significant activities therefore fall under the SIC :

- Dial a Ride Middlesbrough
- Hustler Playing Fields Trust
- CADCAM
- Cleveland Accredited Training Centre (CATC)
- West Middlesbrough Neighbourhood Trust (WMNT)

All of the organisations have also completed a Service Assurance statement for 2006/07, and none of them have identified any issues which need to be separately reported in the SIC.

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 have undertaken reviews in 2006/07 of specific Council services

- 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

None of the above reviews identified any significant areas of concern, however, the relevant service departments will be implementing the action plans resulting from the reviews over 2007/2008.

The Benefit Fraud Inspectorate made a series of recommendations in their CPA annual assessment of the benefit service during 2005/2006, centering around the requirement for the Council to implement the national Verification Framework by implementing three key 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) was implemented during 2006/2007.

Statement of Internal Control *continued*

The following major reviews are due during 2007/08:

- Benefit Fraud Inspectorate
- DWP Annual Benefit Review Team
- Benefits ISO 9000/2000 Assessment
- Education - Annual Performance Assessment (OFSTED & CSCI)
- Children's Service (CSCI Fostering inspection),
- Inspection of Adult Education and work based Learning (OFSTED)
- Joint Area review (OFSTED)

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 2007/08.

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 2006/2007, 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 (2005/2006 Statement)	Action Taken
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	<ol style="list-style-type: none">1. The problems were on such a scale that the Housing Bureau was closed from the 1st April 20062. The service has made arrangements for all trainees to complete their training via a company called Woodcraft Training Services Limited.3. Discussions are ongoing with the relevant funding body about possible grant claw back, and a provision has been set up in the accounts to fund any potential clawback.

Statement of Internal Control *continued*

Areas requiring Improvement (2005/2006 Statement)	Action Taken
<p>Home improvement Grants Processes and procedures within the Housing Improvement Grant Section have contributed to produce an environment where there are high risks of:</p> <ul style="list-style-type: none"> • Fraud • Grant payments exceeding the maximum amount; and • Inability to demonstrate all building work undertaken was satisfactory 	<ol style="list-style-type: none"> 1. The service has appointed consultants to assist the agency to address the issues raised in the audit and develop a more robust control environment. The consultants worked very closely with both senior and operational management to produce an action plan to address the issues, and the audit was "signed off" in December 2006. 2. Increased frequency of monitoring by senior managers. A senior manager now signs off all files at approval and payment stage and a checklist must be completed at all stages.
<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 Council's Strategic Partner, HBS. The Deputy Director of Finance will continue to monitor the reconciliations. 2. The GR/IR account has been looked at on a regular basis by HBS staff. Advice was also sought from the V3 SAP systems auditors. An automatic process was identified to clear large numbers of small entries. 3. Guidance has been issued to all procurement staff across HBS and the Council. together with appropriate training to ensure orders and goods receipting are dealt with correctly.

The following control issues requiring attention were also identified during 2006/07, but a number of the actions will not be fully implemented until 2007/08

Areas requiring Improvement (2005/2006 Statement)	Action Taken
<p>Works employment schemes Internal Audit identified significant issues in the process and procedures being followed in certain regeneration schemes:</p>	<ol style="list-style-type: none"> 1. All project officers now undergo basic project management training, which will be maintained. 2. Detailed training in procurement will be undertaken on an ongoing basis. 3. Project officers knowledge of funders general criteria has been strengthened.

Statement of Internal Control *continued*

	<ol style="list-style-type: none">4. Project officers are to receive training on the monitoring and information requirements of grant providers, to ensure only eligible expenditure is included in claims.5. Stronger management controls and checking procedures will be implemented.
<p>Weaknesses in the monitoring on Surestart grant funded Insufficient record keeping putting the council at risk of potential grant clawback.</p>	<ol style="list-style-type: none">1. Recording systems within the relevant projects have been strengthened.2. Management will implement more extensive and detailed checking and scrutiny of record keeping and overall grant procedures.3. Reporting on the use of grants will be included as a separate segment in the budget clinic process and an exit strategy will be developed for those grants ending in March 2008.

Statement of Internal Control *continued*

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)

..... (Chief Executive)

..... (Director of Resources)