

## Herefordshire Council

### Statement of Internal Control 2006- 2007

#### 1. Scope of responsibility

- 1.1 Herefordshire 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. The 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.
- 1.2 In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control that:
- facilitates the effective exercise of the Council's functions; and
  - includes arrangements for the management of risk.

#### 2. The purpose of the system of internal control

- 2.1 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. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to support the Council's operation and manage risk in a balanced and effective manner, acknowledging that an element of risk is inevitable if policies, aims and objectives are to be achieved.

#### 3. The internal control environment

- 3.1 The key elements of the internal control environment at Herefordshire Council include:
- establishment and monitoring of the Council's statutory obligations and organisational objectives as evidenced by:
    - the Council's Corporate and Annual Operating Plans;
    - the Council's Directorate and Service Plans; and
    - effective arrangements for compliance with and monitoring of legislative changes.
  - the Council's Medium Term Financial Management Strategy;
  - an integrated corporate, service and financial planning process;
  - the Performance Management Framework which sets out the Council's approach to performance management;

- the Council's Constitution which sets out members' and officers' responsibilities, delegations to officers and committees and the terms of reference of all the Council's committees;
- the Council has systems and process as outlined in the Risk Management Strategy in place to identify principal risks to the achievement of the Council's objectives, supplemented by the consideration of risk in committee reports and the decision making process;
- the Director of Resources has overall responsibility for embedding the Council's risk management process;
- there are written Financial Regulations and Contract Standing Orders that are subject to regular review;
- adoption of statutory and professional standards such as the Codes of Practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA);
- financial administration procedures agreed by the Section 151 officer;
- the Council has in place a written Whistleblowing Policy, an Anti Fraud & Corruption Policy, a Code of Conduct for employees and a Code of Conduct for councillors, all of which have been regularly brought to the attention of all those concerned;
- an Audit and Corporate Governance Committee is now operating as part of the Council's internal control process;
- an independent audit function that submits regular assurance reports to the Council's Audit and Corporate Governance Committee;
- adoption of a Statement of Internal Control assurance process; and
- devolved financial management arrangements where key managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures.

#### **4. Review of effectiveness**

- 4.1 Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The Corporate Management Board carries out this review at officer level with the Audit and Corporate Governance Committee undertaking the review at member level.
- 4.2 The Audit Services Manager informs both the Corporate Management Board and the Audit and Corporate Governance Committee of any significant issues that warrant their attention.
- 4.3 The review of the effectiveness of the system of internal control is informed by the work of the Council's Internal Audit Service, officers of the Council who have responsibility for the development and maintenance of the control environment and also by comments made by the Audit Commission and other review agencies and inspectorates.

### **Internal Audit Service**

- 4.4 Herefordshire's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Director of Resources, the officer with responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.
- 4.5 The Audit Services Team operate in accordance with best practice, professional standards and guidelines. The team independently and objectively reviews, on a continuous basis, the extent to which reliance can be placed on the internal control environment. This is evidenced by the opinion given on the Council's overall system of control by the Audit Services Manager.
- 4.6 The Audit and Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual plan and Audit Strategy for the forthcoming year.

### **The Monitoring Officer**

- 4.7 The role of the Monitoring Officer is a statutory office whose duties are set out in the Local Government and Housing Act 1989 and the Local Government Act 2000. The main responsibilities of the Monitoring Officer are to ensure that the Council and its elected Members act with probity in accordance with the law and in accordance with its Constitution and to avoid determinations of maladministration being issued by the Local Government Ombudsman.
- 4.8 The Monitoring Officer is also responsible for carrying out investigations and reporting to the Standards Committee of the Council any breaches of the Code of Conduct of members referred to it by the Standards Board for England.

### **Officers of the Council**

- 4.9 Individual Directors and Heads of Service are responsible for establishing and maintaining an adequate system of internal control within their own Directorate and services respectively and for contributing to the control environment on a corporate basis.
- 4.10 Written assurances have been received from all Directors and all Heads of Service stating that:
  - agreed actions plans in response to recommendations from internal audit, external audit and other inspection reports have been or are being implemented within the timetable agreed; and
  - they are satisfied with the operation of internal control within their area of responsibility.

### **Audit Commission and other review agencies / inspectorates**

- 4.11 The Audit Commission's Annual Audit and Inspection letter for 2005/06 (dated March 2007) stated that the Council's systems of internal control met the minimum requirements for the Use of Resources assessment. The main areas

identified by the Audit Commission that would benefit from improvement are listed below together with an update in *italics* of progress to date:

- demonstrate that it actively manages risk and there are outputs from management. Officers need to be trained in risk awareness and the Council needs to demonstrate that they have adequately considered partnerships in their risk Assessments.

*Risk Management is an integral part of the Council's Performance Management Framework with the Corporate Risk Log being regularly reviewed by Corporate Management Board. The Corporate Risk Logs are also an integral part of the Council's Integrated Performance Reports submitted to Cabinet.*

- embed the assurance framework and the links between the Council's objectives and risks could be clearer. Reconciliations of key feeder systems need to occur monthly. Partnership arrangements need to be developed with standing orders showing how good governance and partnerships relate.

*The Council's agreed assurance framework has been followed with regular updates being provided to the Audit and Corporate Governance Committee. The links between the Council's objectives and risks are being identified. The development of the governance framework for partnership arrangements will form part of the pending review of the Council's Standing Orders.*

- raise awareness concerning ethical behaviour but also needs to raise awareness of whistleblowing procedures and the antifraud and corruption policy.

*The Council has placed posters on notice boards at its administrative buildings and continues to remind staff by regular notices on payslips.*

- act on feedback from the ethical survey of Members and Senior Officers. There were some areas identified as areas for action such as the work of the Standards Committee and improved communication to the public on the whereabouts of public documents.

*Legal and Democratic Services has carried out training for Members in relation to the role of the Council's Standards Committee as part of a wider programme of Member training. The Council's Head of Communication is reviewing the Council's arrangements with regards to communication with the public.*

## **Benefits Fraud Inspectorate**

- 4.12 The Benefit Fraud Inspectorate gave the service a '2 star' for 2006 which equates to a 'fair' performance overall. Although user focus continued to be good, the service failed to achieve its annual target for interventions work and claims processing. The service has, however, been improving steadily and has self-assessed against the inspection criteria for 2007 as a 'good' service. The formal results will be announced in November 2007.

## **Annual Performance Assessment**

- 4.13 The 2006 Annual Performance Assessment of Services for Children and Young People in Herefordshire showed that there were no inadequate assessments, with the Council getting a score of 2. The latest action plan shows that progress is being made. However, the Government Office for the West Midlands (GOWM) remained concerned about the Council's ability to sustain the improvement and will, at the Government's request, continue to oversee the Improvement Board for Children and Young People the end of September 2007. The August 2007 examination results for Herefordshire were good. The next Annual Performance Assessment is scheduled for the end of September 2007 and will result in an updated external assessment of the Council's Children and Young People services.

## **Fostering Service**

- 4.14 The Commission for Social Care Inspection (CSCI) found the Fostering Service to be good with some outstanding features. An action plan has been developed that will ensure that the service continues to improve.

## **Cultural Services**

- 4.15 The Audit Commission's inspection of Cultural Services showed the service to be fair with promising prospects for improvement. The Head of Service has developed an action plan to address issues raised.

## **Learning Disabilities**

- 4.16 The Commission for Social Care Inspection (CSCI) has inspected the Learning Disabilities Service. The outcome was that people were not being served well and the capacity for improvement was uncertain. An action plan has been developed and agreed. It is being implemented as an integral part of the Council's comprehensive programme of improvement for Adult Social Care Services.

## **5. Significant internal control issues**

- 5.1 The Council is required to report upon any significant internal controls issues including those that have:
- seriously prejudiced or prevented achievement of an objective;
  - resulted in the need to seek significant additional funding;
  - had a material impact in the accounts;
  - resulted in formal action by the Monitoring Officer, Chief Finance Officer or have been reported as significant by the Audit Services Manager; or
  - attracted significant public interest.
- 5.2 The following issues have been identified as falling within the categories listed in paragraph 5.1:
- The Learning Disabilities Service has been judged by CSCI as not serving people well.

- Three fundamental systems were given a **marginal** (a number of areas have been identified for improvement) audit opinion in 2006/07. These were:
  - Education Transport;
  - Housing Benefit Payments; and
  - Salaries in Children Services.

Audit recommendations have been made in relation to each of the above systems. Audit Services will review implementation of the agreed action plans as part of planned activity in 2007/ 2008.

- One fundamental system was given an **unsatisfactory** audit opinion (unacceptable risks identified, changes should be made). This relates to the financial management and procurement system within ICT. Audit recommendations and progress will be monitored in line with usual protocol.

- 5.3 It is also appropriate to highlight concerns arising in the current financial year that relate to the previous year of account.
- 5.4 A separate report on the Audit and Corporate Governance Committee's agenda for 21<sup>st</sup> September 2007 explains changes necessary to the Statement of Accounts for 2006/07 that were approved by the Audit and Corporate Governance Committee in June 2007.
- 5.5 A further report on the Audit and Corporate Governance Committee's agenda for 21<sup>st</sup> September 2007 gives details of an corporate action plan proposed by the Director of Resources to address concerns about financial governance arrangements emerging in ICT and Customer Services. One of the issues identified is linked to one of the changes necessary to the Statement of Accounts for 2006/07.

**Cllr R. Phillips**  
Leader of the Council

**N. Pringle**  
Chief Executive

**Mrs. S. Rees**  
Director of Resources

September 2007