

**HEREFORDSHIRE COUNCIL
STATEMENT OF INTERNAL CONTROL 2004/5**

1. Scope of Responsibility

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.

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

2. 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. 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 system of internal control has been in place at the Council for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

4. The Internal Control Environment

The key elements of control are described below:

- (a) The Council sets out its objectives through a series of Plans; the Corporate Plan, the Best Value Performance Plan, the Herefordshire Plan and Service Plans, together with Action Plans arising from Best Value Reviews and External Inspection reports, and Revenue and Capital Budgets.
- (b) The Council's policy and decision-making process is set out in the Council's Constitution which explains and regulates how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

The Constitution is supplemented by a range of policies and processes to support the operation of the Council, including schemes of delegation to officers, standing orders relating to the business of the Council, and codes of conduct for members and officers.

- (c) The financial management of the Council is integrated with and influenced by many of the above processes. It includes processes for forward planning of expenditure and resources, budget consultation, setting and monitoring, and completion of final accounts, all aimed to be accurate, informative and timely. The Council also has in place financial regulations designed to support sound financial management policies and procedures, and adherence thereto, and also to reflect the Council's current political and management structure and business activities.

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- (d) In order to ensure compliance with policies, procedures and statutory requirements, the Council has a range of controls and processes in place, as set out below. These processes also assist the authority in ensuring the economical, effective and efficient use of resources, in securing continuous improvement in exercising its functions, and provide for an effective performance management and reporting process.

5. Review of Effectiveness of Internal Controls

- 5.1 The Council has a 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 the internal auditors and the senior managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.
- 5.2 To ensure that internal control procedures are efficient and effective and are complied with on a routine basis, Council, Cabinet, Committees, Directors and Heads of Service have a full range of professional officer advice to enable them to carry out their functions effectively and in compliance with statutory requirements. The External Auditor is satisfied with the Council's arrangements.
- 5.3 All Directors and Heads of Service gave written assurance through a signed statement as to the operation of internal control and risk management within their own Directorate/Service during the year. (Appendix I)
- 5.4 Internal Audit provides an independent and objective assurance across the whole range Council activity and report to both Cabinet and Strategic Monitoring Committee on an interim and outturn basis during the year. The External Auditor is able to place reliance on the work of the section.
- 5.5 External Audit provide a further source of assurance by reviewing and reporting upon the Council's internal control processes and any other matters relevant to its statutory functions and codes of practice. The Council's External Auditor is satisfied with the Council's arrangements.
- 5.6 Risk Management policies and procedures are in place with the objective of ensuring that the risks facing the authority in achieving its objectives are evaluated, reviewed and mitigation strategies developed, and these arrangements are approved and reviewed by Cabinet. However, risk management was not fully developed for the whole year, particularly at operational level, although the arrangements for considering the key strategic risks have been developed well.
- 5.7 Effective, efficient and responsive systems of financial management were in place throughout the year, which worked satisfactorily except for the Social Care overspend.
- 5.8 The Council has complied with the 2003 CIPFA Code relating to Capital Finance & Treasury Management and the Council's accounts have been prepared in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
- 5.9 The Council continues to ensure the economical, effective and efficient use of resources.

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- 5.10 The Council's overview and Scrutiny Arrangements are satisfactory.
- 5.11 Performance monitoring procedures are in place, and fully operational across the Council.
- 5.12 Reports received from external agencies and inspectorates continue to show how well services to the public are delivered.
- 5.13 Services continue to be developed by properly trained, skilled, experienced and dedicated staff.
- 5.14 The Leader of the Council and the Chief Executive have been advised on the implication of the results of the review of the effectiveness of the system of internal control by the Cabinet, and plans to address weaknesses and ensure the continuous improvement of systems are in place.

6. Significant Internal Control Issues

The Council is required to report upon any significant internal controls issues. These include issues which:-

- 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 Head of internal Audit.
- Attracted significant public interest.

The items identified in the 2003/4 Statement on Internal Control have been addressed. The Council, during the year under review, identified two significant internal control issues. One in relation to the overspend in Social Care. The County Treasurer and the Director of Social Care have reported on the matter to Cabinet on 19th May 2005 and a further report considered by Cabinet on 23rd June 2005. The agreed actions to address the situation are summarised as follows:

- All spending decisions on non-staffing budgets and care placements/service budgets must be on an emergency health and safety basis, and emergency risk basis for users and carers until further notice.
- The modernisation of the Learning Disability Service will include assessment practice improvements, accommodation and care review and the modernisation of day opportunities.
- Negotiations with the Primary Care Trust regarding risk sharing have now been agreed. The Primary Care Trust has confirmed that it would move to a full transfer of risk in 2006/7 if agreed criteria are met and in any event by 2007/8.

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The other issue related to the Council's overall disaster recovery arrangements. The Council has now invested funds in the technical platform in an effort to improve the situation. In addition, an action plan is in place to help reduce the level of risk exposure.

The Council continues to seek to improve performance and takes action on recommendations made by both internal and external agencies.

Signed _____ Signed _____

N. M Pringle
Chief Executive

Councillor R.J Phillips
Leader of The Council

Signed _____

I. Hyson
County Treasurer

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APPENDIX I

The Statement on Internal Control 2004/05 within Herefordshire County Council

Statement of Assurance from _____

Directorate _____

1. I confirm that all recommendations arising from internal audit, external audit and other inspection reports have been actioned or are in the process of being actioned in line with the timetables agreed.

2. I am aware that the system of internal controls are designed to ensure:
 - (a) The establishing and monitoring of the achievement of the Authority's objectives.

 - (b) The facilitation of policy and sound decision-making.

 - (c) Compliance with established policies, procedures, laws and regulations.

 - (d) Effective risk management, including how risk management is embedded in the activity of the Authority, how leadership is given to risk management process, how staff are trained or equipped to manage risk in a way appropriate to their authority and duties.

 - (e) The economical, effective and efficient use of resources and for securing continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty.

 - (f) Good financial management and reporting arrangements.

 - (g) Good performance management and reporting arrangements.

3. I am also aware that the system of internal controls is designed to manage rather than eliminate risks, and hence can only provide reasonable and not absolute assurance of effectiveness.

In the context of the above, I am satisfied that (excluding matters detailed overleaf), in relation to the financial year 2004/05 a sound system of internal control has been in place in relation to the service areas for which I am responsible, and is ongoing.

Those high level controls that I do not consider to be adequate (exclude minor operational controls), together with the action I intend to take during 2005/06 to mitigate these risks, are detailed overleaf:-

Signed _____

* Director/ Head of Service

Date _____

* Please delete as appropriate