

**Herefordshire Council  
Statement of Internal Control 2005-2006**

**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 internal control environment**

The key elements of the internal control environment at Herefordshire Council include:

- Establishment and monitoring of the Council's statutory obligations and organisational objectives, evidenced through the Council's Corporate and Annual Operating Plans, guidance on directorate and service plans, effective arrangements for compliance with and monitoring of legislative changes;
- An integrated Corporate, Service and Financial Planning process;
- The Performance Management Strategy which sets out the Council's approach to performance management;
- The Council's Constitution sets out members and officers responsibilities, and delegations to officers and committees in addition to the terms of reference of all the Council's committees;
- The Council has systems and process as outlined in the Council's 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;

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- There are written Financial Regulations and Contract Standing Orders, which 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;
- Financial administration procedures agreed by the Section 151 officer;
- The Council has in place a written Whistleblowing Policy, an Anti Fraud and Corruption Policy and a Code of Conduct for employees all of which have been regularly brought to the attention of all staff;
- An Audit Committee is now operating as part of the Council's internal control process it's first meeting was held on 30<sup>th</sup> September 2005;
- An independent audit function, which submits regular assurance reports to the Council's Audit Committee;
- Adoption of a Statement of Internal Control assurance process approved by the Audit Committee on 20<sup>th</sup> February 2006; and
- Devolved financial management arrangements where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures.

**4. Review of effectiveness**

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 Committee undertaking the review at member level.

The Principal Audit Manager informs both the Corporate Management Board and the Audit Committee of any significant issues that warrant their attention.

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/inspectorate.

**Internal Audit Service**

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.

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

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the internal control environment. This is evidenced by the opinion given on the Council's overall system of control by the Principal Audit Manager.

The Audit Committee receives interim and annual reports on internal audit activity and approves the annual plan for the forthcoming year.

**The Monitoring Officer**

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

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**

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.

Written assurances have been received from all directors and all heads of service that they:

- have actioned recommendations from internal audit, external audit and other inspection reports or are in the process of being actioned within the timetable agreed; and
- are satisfied with the operation of internal control within their area of responsibility.

**Audit Commission and other review agencies/inspectorate**

In their Annual Audit and Inspection letter 2004-2005 the Audit Commission stated that the Council's systems of internal control met the minimum requirements for the Use of Resources assessment. To improve the Council needed to develop:

- risk management, particularly with respect to partnership working and quarterly reporting to Cabinet on risk management issues;  
*Directorates have been asked to include on DMT agendas, major projects e.g. Accommodation Strategy/Hereford Connects have risks logs associated with them. Corporate risk logs are circulated regularly for amendment. Risk Management issues are reported to Cabinet on a two monthly basis as part of the integrated Performance Reports*  
*The Audit Manger has attended a CIPFA seminar on risk management in partnerships and a risk management protocol for partnerships is being developed;*

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- the assurance framework, in particular mapping strategic objectives to risks, controls and assurances; *The Audit Committee has adopted a Statement of Internal Control Assurance Framework, which meets the Audit Commission's requirements; and*
- the role of the Audit Committee to provide effective leadership on audit and governance issues. *The Council's Audit Committee is now fully operational and the terms of reference as set out in the CIPFA Guidance on Audit Committees have been adopted.*

The Council's Use of Resources assessment gained a 3 out of 4 however the internal control element was assessed as a 2 out of 4, an action plan has now been developed with the aim of improving the internal control score by the time of the next assessment.

**Benefits Fraud Inspectorate**

The inspectorate gave the service a 3 star rating, which equated to a good performance overall. It found that the Council's service in relation to claims administration, user focus, and resource management was good, with security arrangements being excellent.

**Corporate Assessment and Joint Area Review**

The outcome for the Council as a whole continued to be a positive one with the Council's overall score being that of a three star authority and under the new direction of travel statement, the authority was seen as "Improving Adequately".

Although the Council had a Performance Management Framework there was a need for it to be robustly and consistently implemented across the Council.

In overall terms there was a positive assessment of the review of Services for Children and Young People, however there was a major qualification to the overall assessment and that was in relation to the important area of ' Staying Safe'.

The Council has in place action plans to address the issues raised, the Corporate Management Board and Cabinet carry out regular monitoring of these plans. The Council has also set up Prince 2 Project Boards to ensure that the required improvements are met.

**5. 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; and

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- attracted significant public interest.

There were four issues identified for improvement:

- The Council does not have a Code of Corporate Governance in line with good practice. *A Code of Corporate Governance will be developed in line with CIPFA/SOLACE guidance and be submitted for approval by 31<sup>st</sup> August 2006;*
- Risk Management is embedded at Corporate and Directorate levels and the Council has well defined procedures for recording and reporting financial and non-financial risks. There is now a need to embed risk management at Key Manager level to ensure a consistent approach across the Council. *The Director of Resources is now the Council's lead officer and an action plan has been developed to speed the process and includes training, guidance for Directorate Management Teams, a survey of key managers and a review of the current Risk Management Strategy for completion by 31<sup>st</sup> August 2006;*
- 'Staying Safe' improvements within the Children and Young People Directorate raised as part of the Joint Area Review. *A Prince 2 Project Board is now in place to ensure that satisfactory progress is made on the Cabinet's approved action plan; and*
- There is the need to ensure that the Council's Performance Management Framework is robustly and consistently followed across the Council. *A Prince 2 Project Board is now in place to ensure that satisfactory progress is made on the Cabinet's approved action plan.*

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

**N. Pringle**  
**Chief Executive**

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

**June 2006**