

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL AND CORPORATE GOVERNANCE 2006/2007

1. Scope Of Responsibility

Sedgefield Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards 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, having regard value for money

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 its 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 identify and prioritise the risks to the achievement of the 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.

3. The Internal Control Environment

The system of internal control revolves around a framework of proper establishment of the Council's objectives, regular performance management information, risk awareness, financial regulations, standing orders, administrative procedures based on appropriate segregation of duties, management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular, the system includes:-

- *Regular review and setting of the Council's priorities.*
- *Establishment and monitoring of targets within a performance management framework.*
- *Scheme of delegation within the approved Council Constitution.*
- *Ongoing development of risk management across the Council.*
- *Comprehensive budgeting processes and budgetary control information systems.*
- *Management Review of operational performance efficiency.*
- *Medium Term Financial Planning*
- *Financial performance reviews against forecasts.*
- *Clearly defined capital programme framework.*
- *Application of project management disciplines.*

4. Major Developmental Areas

4.1 **Performance Management**

The Council's framework for performance management has developed in recent years, prompted by Best Value, Comprehensive Performance Assessment and the need to monitor progress with the Council's priority service areas. The Service Planning process helps to identify a wide range of performance measures to be applied to the Council's broad range of activities. Performance results are reported to Strategic Working Groups as well as Overview and Scrutiny Committee for discussion and action where appropriate. Each department's approach to the application of performance management within its structure is continuing to be developed, with a view to best practices being applied across the Council. This action is in line with recommendations from the Audit Commission and will make a major contribution to the revised Comprehensive Performance Assessment results next year.

4.2 **Risk Management**

The development of the Council's approach to Risk Management continues to gather pace with the recent establishment of a Strategic Risk Management Group under the leadership of the Director of Resources to review the major risks facing the Council. Up to 75 Strategic Risks have been identified with Directors and Heads of Service being tasked with assessing the effectiveness of the current controls already in place to mitigate against those risks and if necessary to identify any further actions that will be required to be undertaken to ensure that risks to the Council are reduced to an acceptable level.

The Operational Risk Management Group continues to work towards increasing the awareness and importance of risk across the Council's activities, as well as developing and progressing risk initiatives and responding to legislative changes. Work is ongoing to identify how risk issues can be highlighted and addressed within each department, and brought to the attention of Members to inform the decision making process

During the year a Pandemic Flu Plan was developed and an action plan is now in place which identifies a number of tasks that will need to be undertaken to ensure that the Council is as fully prepared as possible to cope with the inevitable disruption that will occur during such an outbreak.

The Audit Committee received a report in January 2007 that reviewed the Risk Management activities undertaken during 2006. A number of recommendations made by the Committee on the actions that officers should undertake to further embed Risk Management throughout the Council, including the use of the Electronic Risk Register, Risk Prioritisation Matrix and Generic Risk Profiles, were subsequently endorsed by Cabinet.

5. **Review of Effectiveness**

The Council is responsible for ensuring the effectiveness of the system of internal control. The review of the effectiveness is informed by the work of the Council's Internal Auditors and Managers within the authority, which has responsibility for the development and maintenance of the internal control environment. Additionally, the Audit Commission, I and other external agencies carry out review work on specific areas.

The Council's Internal Audit is provided by a team of six directly employed staff, under the control of the Audit Services Manager. The annual Audit Plan for 2006/2007, based on sound risk assessment criteria, was considered by Overview and Scrutiny Committee One and identified the individual areas of audit activity planned, taking account of policy, structural and developmental changes affecting the Council. All the major systems of the Council are examined every year to confirm that internal financial control is operating satisfactorily and effectively contributing to the delivery of services. Performance management arrangements are also examined.

During the year a group of senior officers representing all departments met to review the progress being made within each Department to further improve on the control arrangements already in place. In order to comply with recent changes to the Accounts and Audit Regulations, the Group has also satisfied itself that the System of Internal Audit was operating effectively within the Council after having reviewed relevant evidence as suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Audit Committee considered a progress report on Internal Audit work in October 2006 which confirmed that much of the audit work had been concluded satisfactorily. A full report on 2006/07 will be considered by the Audit Committee in June 2007.

6. **Outstanding Issues from Previous Statements**

There were a number of issues identified in the 2005-2006 Statement of Internal Control as requiring remedial action. The imbalance within the Accounts Receivable System has now been satisfactorily resolved but further work is being undertaken with regard to the Establishment Control arrangements and although the main issues with the Torex Management Information System have been resolved there are still a number of minor problems still being addressed. With regard to achieving Value for Money in relation to

housing services, market testing of the Emergency Callout Service on housing repairs resulted in the work being out-sourced, achieving significant savings. Significant progress has now been achieved in establishing a partner to provide construction work until 2012. A partnering advisor has now been appointed and a short list of potential partners to undertake construction works, including maintenance, improvements and new build is currently being drawn up. The partnership is expected to become operative from October / November 2007. A Value for Money Strategy in respect of Housing Services has been developed and includes a detailed review of a number of aspects of current service delivery.

7. New Issues arising during 2006/07

One further issue has arisen during the 2006/2007 financial year as follows

Monitoring of Energy Management

As new energy contracts negotiated during 2006 have indicated that the Council's fuel costs are likely to be in the region of £1 million in 2007/08, progress is currently being made towards the development of appropriate monitoring arrangements and initiatives to ensure that consumption is reduced wherever possible.

8. Audit Commission

External audit and inspection is carried out by the Audit Commission in accordance with proposals agreed with the Council on an annual basis, with formal reports considered by the Audit Committee and Council as necessary. The Audit Commission has adopted a much more rigorous approach to the Comprehensive Performance Assessment (CPA) work, and the Council's self-assessment approach to the issues contained in various key lines of enquiry, including use of resources, will be used to develop our approach further.

9. Corporate Governance

Sedgefield Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this responsibility, members and senior officers are responsible for putting in place proper arrangements for the governance of the authority's affairs and the stewardship of the resources at its disposal. To this end, the Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework 'Corporate Governance in Local Government: A Keystone for Community Governance'. A copy of the Local Code is on our website at www.sedgefield.gov.uk or can be obtained from the Head of Financial Services on 01388-816166 ext. 4385.

The Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice. The Chief Executive is responsible for:-

- Overseeing the implementation and monitoring the operation of the code.
- Reviewing the operation of the code in practice.
- Ongoing constitutional review processes.
- Reporting annually to Council on the compliance with the code and any changes that may be necessary to maintain it and ensure its effectiveness in practice. The 2006/2007 annual report on Corporate Governance will be presented to Council on 29th June 2007.

10. Conclusions

On the basis of information supplied to us, we are satisfied that the Council's Internal Control and Corporate Governance arrangements are adequate and operating effectively, subject to the observations made above.

All Directors are aware of their responsibilities and are progressing the actions necessary to achieve full compliance. A further level of assurance was required for the 2006/07 financial year when a detailed self-assessment questionnaire was required to be completed by all Heads of Service to demonstrate their awareness and commitment to full development of the control environment.

We are satisfied that these actions will address the need for improvements that have been identified and will review their implementation and operation as part of our continuous review processes.

<i>Signed</i>		<i>Dated</i>
	<i>Leader of the Council</i>	
<i>Signed</i>		<i>Dated</i>
	<i>Chief Executive</i>	