

HERTFORDSHIRE COUNTY COUNCIL

**AUDIT COMMITTEE
TUESDAY 8 JUNE 2004 AT 10:00 A.M.**

Agenda Item No:

4

REVIEW AND STATEMENT OF INTERNAL CONTROL 2003/4

Report of the Chief Internal Auditor

Author: Chris Kay Tel: 01992 555320

1. Purpose of Report

To set out the basis for the recently completed review of the Council's system of internal control, and to present the draft Statement of Internal Control 2003/4 for the Committee's consideration and endorsement.

2. Background

Under the Accounts and Audit Regulations 2003, the Council is required, for the first time, to undertake an annual review of the effectiveness of its system of internal control. The authority must also include a statement on internal control with its financial statements at the year-end, starting with the 2003/4 accounts. The Regulations define the system of internal control as one which "facilitates the effective exercise of [the Council's] functions and which includes arrangements for the management of risk".

Internal Audit has undertaken this review, with the involvement of the County Secretary as Monitoring Officer, the Finance Director, and other key staff. The Audit Committee endorsed this approach on 4 March 2004 when they agreed Internal Audit's Annual Plan.

Attached is a draft of the statement, which has been produced in compliance with the statutory CIPFA guidance publication, "The Statement of Internal Control in Local Government – Meeting the Requirements of the Accounts and Audit Regulations 2003".

The Committee are invited to endorse the draft Statement of Internal Control.

STATEMENT OF INTERNAL CONTROL 2003/4

1 Scope of responsibility

- 1.1 Hertfordshire County 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, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 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

- 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. A key part of the system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. Through this process, the Council evaluates the likelihood of those risks being realised and the impact should they be realised, and manages them efficiently, effectively and economically.

The system of internal control has been in place at Hertfordshire County Council for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts.

3 The internal control environment

The key elements of the internal control environment within Hertfordshire County Council are:

Objectives

- 3.1 The full Council approves or adopts the policy framework for the Authority. It has agreed and published the Best Value Performance Plan, which contains the Council's promises for Hertfordshire. During 2003/4 the Council's key promises were to make Hertfordshire a better place to live and work, to offer children a better future, to help people to help themselves and to continue to be a top performing council which gives the public value for money. The Cabinet reviewed

progress against the local and statutory performance indicators, which allowed the Council to monitor the achievement of these promises, on a 'traffic light' basis.

Policy and decision making

3.2 The Council has a Constitution, which sets out, in full, the processes by which its policies are made and its decisions taken. In summary:

- the full Council approves the budget and policy framework
- the Cabinet takes significant decisions on policy and operational matters
- there is an extensive scheme of delegation to officers, who are bound by Council policy, budget limits, and the requirements of the law in taking decisions.

Compliance

3.3 The Constitution sets out how members and officers work to ensure compliance with established policies, procedures, laws and regulations. In conformity with the CIPFA / SOLACE framework for Corporate Governance, a Risk Management Policy was agreed by the Safety, Emergency and Risk Management Board in 2000 and adopted by members and management. Through 2003/04, the Head of Risk Management continued to refine the risk management arrangements. These included:

- operation of a process, approved by the Cabinet, for the involvement of members in an annual risk identification and management process
- identification and assessment, through the Finance Board, of the key risks currently faced by services and the measures being taken to mitigate them.

There were also sound arrangements for embedding risk management within the management of major projects.

Value for money

3.4 SHARP, the major project for Simplifying Hertfordshire's Accounting and Resource Processes, led to significant business re-engineering. The project's key output was the successful implementation, on 5 April 2004, of the SAP resource management system for both Finance and for Human Resources/Payroll.

The new system was accompanied by considerable changes in procurement, accounting and HR processes. There was huge commitment from the dedicated SHARP team and from many other staff, and the project was managed in a highly professional and effective way.

3.5 Best Value reviews were finalised during 2003/4, as follows:

- Library Service
- Services for Older People
- Planning and Transport.

During 2003/4 the Council adopted a three-year Improvement Plan.

3.6 Following the introduction of the Comprehensive Performance Assessment (CPA), Hertfordshire County Council was rated as one of the best performing councils in the country, according to the Audit Commission. During 2003/4, the Audit Commission, which monitors the performance of councils across the country, has announced for the second year running that Hertfordshire County Council serves its local people in an excellent way.

3.7 The Council received four out of four for its overall service performance under the Comprehensive Performance Assessment (CPA) scheme. As well as maintaining the quality of its services, Hertfordshire has also made progress in environment, education and social care.

3.8 The Audit Commission explained: "Based on Hertfordshire's current plans, the Council is well placed to further improve the way it works and the services it provides to local people".

Financial management

3.9 The full Council approves the budget, including the allocation of financial resources to different services and projects; contingency plans; the Council tax base; the setting of the Council tax; decisions relating to the Council's overall borrowing requirements; the control of capital expenditure; and the setting of virement limits. The procedures under which these matters are dealt with are set out in the Financial Regulations, in Annex 12 of the Constitution.

3.10 Financial Regulations set out the rules for the control and management of the council's finances and assets. Throughout the year there was monthly financial management reporting to Scrutiny Committee spokespersons and these reports were also entered on to the Money pages of Connect, the Council's intranet. The Quarterly Monitor to Cabinet, and the associated controls which operated throughout 2003/4, were sound.

3.11 For each Department, Internal Audit undertook a review of the overall financial management arrangements. These were sound in all key respects, and improvements had been made to the control environment, notably in:

- strengthened budget monitoring, particularly in Children, Schools and Families Department, and active management of volatile and demand-led budgets
- effective measures leading to the reduction of older outstanding debts.

Performance Management

3.12 The function of performance management was strengthened in October 2003 with the appointment of the Head of Performance Improvement within the Chief Executive's section. The Performance and Planning Group's key responsibilities, as delegated from Strategic Management Board, were:

- Corporate Planning and Initiatives,
- Service Planning,
- Performance Improvement and Learning and
- Performance Management.

Reports were produced to Scrutiny Committees on promise measures (Performance Indicators that help to monitor the achievement of the promises), and appropriate steps were taken to achieve the targets.

3.13 Each department had a staff performance and development scheme which enables managers and staff to:

- clarify roles and agree any changes in main priorities
- look back at the work done in the past year to find where staff have been successful and where they can improve
- set clear work objectives and plans for meeting work priorities in the next year
- work out any learning and development that staff may need.

The authority revised and adopted a new Development Charter in March 2003. The Investors in People standards have been adopted and all departments except Adult Care Services have achieved accreditation.

4 Review of Effectiveness

4.1 Hertfordshire County 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 was informed by the work of the internal auditors, who led the review, and by managers within the authority who had responsibility for the development and maintenance of the internal control environment. It was also informed by comments made by the external auditors and other review agencies and inspectorates.

4.2 Internal Audit also provided an independent opinion on the adequacy and effectiveness of the Council's system of financial control, including in particular:

- the key controls operating within and around the core financial systems
- high level financial management in each Department and corporately
- arrangements for the letting and monitoring of contracts
- controls over information management and security.

In the Chief Internal Auditor's opinion, the above arrangements were adequate and effective in 2003/4, with sound controls in all key areas.

4.3 The Audit Commission's Audit and Inspection Annual Letter which relates to 2002/3 was issued in January 2004. All relevant control issues identified are being addressed. The CPA update process included a rigorous examination of how the Council is run and how the services perform; both of these received a score of four out of four.

4.4 The Audit Committee undertook a quarterly review of contract management, through which it scrutinised how generic groups of contracts were managed. The plans and work of Internal Audit and of the external auditors were regularly reported to the Audit Committee, which scrutinised the auditors' work, and management's actions in response to their recommendations.

4.5 Chief Officers maintain records of complaints, including those referred to the Local Ombudsman, and keep Executive Members and Scrutiny Committee spokespersons informed of complaints related to their services.

4.6 Internal Audit has undertaken the review which has led to this Statement of Internal Control, with the involvement of the Monitoring Officer, Finance Director and other senior officers. The Finance Director and the County Secretary as Monitoring Officer have advised us on the implications of the review, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Significant Internal Control Issues

While there were no major control weaknesses in 2003/4, the Council took or proposed to take a number of actions to further improve its system of internal control, as follows.

Actions Taken

- The Council's promises have been reassessed and a change of emphasis has been made for 2004/5; work has been undertaken to define local performance indicators to measure progress towards achieving the promises
- The Head of Performance Improvement has developed a balanced scorecard which provides the Senior Management Board with the key data they need to measure performance

Actions Proposed

- Risk identification will be included within the budget preparation cycle during 2004
- Chief Officers and Executive Members will be consulted in July 2004 during the identification of risk process
- In October 2004 a report will be made to the Strategic Management Board on the identified priority risks
- SMB will be provided with a quarterly update on the risk management process, with particular emphasis on the monitoring of changes to risks and mitigating measures
- There will be a review of all corporate, service, team and individual objectives to ensure that they remain relevant and are aligned with each other
- The Council will develop meaningful performance measures and targets for objectives at every level
- The Council will use the balanced scorecard to understand better how actions that the Council takes impact on the quality of the services it provides, and on the delivery of its promises and targets
- Schemes of delegation and authorised signatories will be reviewed following the implementation of SAP.

Caroline Tapster
Chief Executive

Robert Ellis
Leader

Date

Date