

Supplementary Committee Agenda



**Epping Forest
District Council**

Council Thursday, 28th June, 2007

Place: Council Chamber, Civic Offices, High Street, Epping
Room: Council Chamber
Time: 7.30 pm
Committee Secretary: Council Secretary: Ian Willett
Tel: 01992 564243 Email: iwillett@eppingforestdc.gov.uk

12. STATUTORY STATEMENT OF ACCOUNTS - 2006/07 (Pages 3 - 18)

Recommendation:

To consider and approve the draft Statement on Internal Control for 2006/07 for inclusion within the Statutory Statement of Accounts.

The Statutory Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations 2003. Within the Regulations there is a mandatory requirement to publish a Statement on Internal Control (SIC), designed to provide the Council with assurance regarding the adequacy of its governance arrangements, and identifying where those arrangements need to be improved.

The SIC was to have been considered and approved by the Audit and Governance Committee at its meeting scheduled to take place on 25 June 2007. However, that meeting did not take place as the meeting was not quorate. Accordingly, the draft SIC and accompanying report are attached for consideration at this meeting.

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Date of meeting: 25 June 2007

Subject: Statement on Internal Control 2006/07

Officers contact for further information: Bob Palmer (Ext: 4279), Joe Akerman (Ext: 4446)

Democratic Services Officer: Gary Woodhall (Ext: 4470)

Recommendation/Decision Required:

To consider and approve the draft Statement on Internal Control for 2006/07 for inclusion within the Statutory Statement of Accounts.

Report:

1. The Council's Statutory Statement of Accounts is included at item (10) on the agenda for this meeting. The Statement has been prepared in accordance with the Accounts and Audit Regulations 2003. Within the Regulations there is a mandatory requirement to publish a Statement on Internal Control (SIC), designed to provide the Council with assurance regarding the adequacy of its governance arrangements, and identifying where those arrangements need to be improved.
2. The Accounts and Audit Regulations were amended with effect from 1 April 2006. From that date there is also a requirement for the Council to review, at least annually, the effectiveness of its system of internal audit. The amended Regulations require the findings of that review to be considered as part of the review of the Council's system of internal control, which is the subject of this report.
3. The Finance and Performance Management Cabinet Committee considered the first formal review of Internal Audit in June last year, in the context of a recent review of Internal Audit conducted by the Audit Commission. Members indicated that they were satisfied with the system of Internal Audit, having regard to the Audit Commission's report.
4. Subsequent to last year's initial review of Internal Audit, CIPFA has issued guidance on the approach to the annual review, which is addressed in a separate report, elsewhere on this agenda.
5. CIPFA has provided guidance on the process for the establishment, operation and review of the system of internal control, which includes amongst other things;
 - compliance with laws, regulations and the Council's policies,
 - accuracy and reliability of financial statements
 - effective and efficient management of resources;
 - delivery of high quality services; and
 - management of risk
6. In practice the system of internal control is under regular review via the work of Internal Audit, External Audit and other review agencies and inspectorates. Regular reports are submitted to the Council's Management Board, and relevant issues are considered by the Officer Corporate Governance Group.

7. Internal Audit focuses its work on providing an independent and objective opinion on the Council's internal controls, and submits an annual report and quarterly monitoring reports to this Committee, where significant audit findings and improvement areas are highlighted. The Chief Internal Auditor is required to include in the annual audit report an opinion on the overall adequacy and effectiveness of the Council's internal control environment, providing details of any weakness that qualifies the opinion. The annual audit report for 2006/07 is included on the agenda for this meeting, and the Chief Internal Auditor has included an opinion that satisfactory assurance can be given regarding the adequacy of the Council's internal control system in 2006/07.
8. The Chief Internal Auditor's assessment is based primarily on the work of his team during the year. In addition, all Heads of Service have again reviewed the internal controls operating within their Service Areas, and have provided assurance statements confirming their belief that appropriate controls were in place during 2006/07. A number of corporate improvements have also been identified.
9. The Audit Commission has issued guidance on how it will assess the Council's arrangements to ensure a sound system of internal control. Amongst other things the Audit Commission indicates that the system will be enhanced by "an appropriate Member group" having responsibility for reviewing and approving the SIC, considering it separately from the statement of accounts.
10. Taking this latest guidance into account the Committee is therefore requested to consider and approve the draft Statement of Internal Control, for inclusion within the Statutory Statement of Accounts.

Resource implications: nil

Community Plan/BVPP reference: nil

Relevant Statutory Power: Accounts and Audit Regulations

Background Papers: Draft Statement on Internal Control 2006/07

Key Decision Reference: n/a

EPPING FOREST DISTRICT COUNCIL

STATEMENT ON INTERNAL CONTROL FOR 2006/07

1. SCOPE OF RESPONSIBILITY

- 1.1 Epping Forest District Council (EFDC) 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. In discharging this accountability, Members and senior officers are responsible for putting in place proper arrangements for the governance of EFDC's affairs and the stewardship of the resources at its disposal. To this end, EFDC 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*.
- 1.2 EFDC has 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.
- 1.3 In addition, the Corporate Governance Group comprising of Management Board, the Monitoring Officer, Deputy Monitoring Officer, the Chief Financial Officer and the Chief Internal Auditor, review the arrangements to provide assurance on the adequacy and effectiveness of the Local Code and the extent of compliance with it.
- 1.4 In discharging these responsibilities, EFDC 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 include arrangements for the management of risk.

2. 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 expecting 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:
- (a) identify and prioritise the risks to the achievement of EFDC's policies, aims and objectives;
 - (b) evaluate the likelihood of those risks being realised and the impact should they be realised; and
 - (c) manage them efficiently and economically.
- 2.2 The basis of this system of internal control has been in place at EFDC for the year ended 31 March 2007, and up to the date of the approval of the accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

- 3.1 The key elements of the internal control environment are summarised below:

3.1.1. Establishing and monitoring of the Authority's objectives

The EFDC Council Plan for 2003/07 was in place during 2006/07 and has now been updated for the period 2007/10. The Plan can be located on the Council's website. This document sets out the Council's main strategies on a four year rolling programme, and is based on a thematic, rather than service specific approach to allow cross cutting issues to be identified and addressed more effectively. The themes are:

- green and unique
- homes and neighbourhoods
- a safe community
- fit for life
- economic prosperity
- improving our performance

The first five themes are drawn from the District's Community Strategy and were chosen because they reflect key priorities for our community. The sixth theme, 'Improving Performance' was chosen as a specific Council priority because of the importance we place on continued improvement.

Progress towards the achievement of the objectives is monitored through the Council's Performance Management Framework. A full review of the actions included in the Plan by the Finance and Performance Management Scrutiny Panel is scheduled for June 2007.

3.1.2 Policy and decision-making

EFDC has a Constitution which details how the Council operates, how decisions are made and the procedures to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution also includes Financial Regulations, Contracts Procedure Rules and the Council's Scheme of Delegation. It is subject to regular review.

The Cabinet is responsible for key policy decisions. The Cabinet is made up of the Leader and eight other Portfolio Holders, who are all appointed by the Council. All decisions must be in line with the Council's overall policies and budget. Any decisions the Cabinet wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.

A review of the Member level scrutiny function led to the introduction in 2005/06 of new arrangements based on a single Overview and Scrutiny Committee to support and monitor the work of the Cabinet. 'Task and Finish' Panels are now used for ad hoc projects agreed in the annual work programme, for in-depth reviews of services/policies, and service development. Standing Panels will be used for cyclical topics such as Finance and Performance Review. A "call-in" procedure remains in place and allows the Overview and Scrutiny Committee to review Cabinet decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered.

A further review of this new structure took place in March 2006, and was held at a members' seminar which was externally facilitated. An action plan was agreed to

streamline arrangements which were generally felt to have been effective. The key findings included the need to build capacity to support the Overview and Scrutiny

function and follow up implementation reviews. No constitutional changes to Overview and Scrutiny were found to be necessary. An action plan relating to the latest review of Overview and Scrutiny was compiled and will be reviewed once the Local Government and Public Involvement in Health Bill is enacted later in 2007/08.

The Bill referred to above will trigger a further review of the Overview and Scrutiny function in addition to the form of executive governance which is currently operating. The current Cabinet will not be available to the Council if the provisions of the Bill are enacted. The three options which are likely to be available will be reviewed by the Council during 2007/08 after the Bill has been made law, which is expected to be by September 2007. The Council has already held one seminar so that the implications of the Bill for both the Cabinet and Overview and Scrutiny were known to Council members.

3.1.3 Standards Committee

The Council's independent Standards Committee was reappointed during 2004 for a 3 year term, and comprises three independent members, one parish representative (and deputy) and two District Councillors. The Terms of Reference of the Committee are defined by Statute and various Government Regulations. Amongst other things the Committee gives advice and training on ethical governance issues and investigates/adjudicates on complaints against elected members as referred by the Standards Board for England. It is also available to assist with interpretation of Council protocols. The Committee submits an annual report on its activities to the Council.

During the year the Committee has continued to hold adjudications on complaints against Councillors and local investigations. The Committee has hosted further training courses on the Code of Conduct and Planning Protocol for both Parish and District Councillors. During the year 2006/07, a further review of the Planning Protocol has been held and this resulted in alterations, which were adopted by the Council at its April 2007 meeting. The Standards Committee has responded to the early introduction of local screening of complaints under the Code of Conduct by assigning key roles in the process to the Monitoring Officer and her staff. Preliminary consideration has also been given to the revised Code of Conduct, which will come into force during 2007/08.

One vacancy on the Standards Committee occurred during the year. A public recruitment exercise has enabled a new independent member to be recruited.

3.1.4 Remuneration Panel

The Statutory Remuneration Panel advises the Council on member remuneration in relation to:

- (a) changes in the number of Overview and Scrutiny Committees;
- (b) changes in Cabinet portfolios; and

- (c) payment of an additional Basic Allowance to assist Councillors with IT provision.

No meetings of the Panel were required during 2006/07.

3.1.5 Compliance

EFDC has a duty to ensure that it acts in accordance with the law and various regulations in the performance of its functions. It has developed policies and procedures for its officers to ensure that, as far as is possible, all officers understand their responsibilities both to the Council and to the public. Three key documents are the Financial Regulations, Contracts Procedure Rules and Staff Code of Conduct, which are available to all officers via the Council's Intranet. Other documentation includes corporate policies on a range of topics such as Data Protection, Health and Safety and Counter Fraud. All policies are subject to internal review to ensure these are adequately maintained. The Council keeps all staff aware of changes in policy, or new documentation following new legislation by means of alerting them in a monthly newsletter, issued by Human Resources, and where appropriate by arranging training for all or key members of staff.

As part of the Local Code of Corporate Governance, EFDC has previously adopted a Risk Management Strategy. This document shows the role both Members and Officers have in the identification and control of risk.

As part of the risk management process, further work has been undertaken during 2006/07 on the development of the Council's risk register, with Members being involved in updating and revising the register before its adoption by Cabinet. A Risk Management Strategy and Policy Statement have also been adopted by Members during the year. The programme of training on risk management for relevant Members continued during 2006/07.

Managers in each Service continue to take the lead on risk management issues and co-ordinate the production of Service risk management strategies. This ensures that risks are identified and that sound business arrangements operate in Service areas to deal with them. These managers meet on a quarterly basis, as the Authority's Risk Management Group with Terms of Reference agreed by Members, to ensure a consistent approach to risk management across the Authority. During the year, Internal Audit followed up the findings of previous risk management audits, and was able to confirm that there had been further improvements in the Council's risk management processes.

Whilst Audit reports have provided assurance that strong systems of internal control are in place, these systems identified some weaknesses in the application of some of the controls, and occasional lapses in the application of Financial Regulations during 2006/07. The main individual concerns included two isolated cases, one involving inappropriate use of public money, the other highlighting weaknesses in the supervisory process in one Service.

In addition there is still a general concern regarding the occasional lack of segregation of duties in some services between the raising and authorisation of purchase orders, and the certification of invoices. These issues are picked up through the Council's internal control mechanisms and dealt with promptly by Service management in liaison with Internal Audit. The outcomes were reported to the Finance and Performance Management Cabinet Committee during the year via the

Internal Audit quarterly monitoring reports, and immediate steps were taken to improve the respective systems and address concerns with individual members of staff.

To assist managers' understanding of finance and governance issues, a user friendly summary of Financial Regulations was issued on the Council's intranet during 2005/06, for reference by all staff involved in financial matters. This measure was accompanied by relevant training for managers and supervisors in all services. Further training sessions were delivered in 2006/07 and over 120 staff have now received training and are fully aware of the requirements of the Council's Financial Regulations. Further training is planned for 2007/08.

It should be borne in mind that the systems of internal control are designed to mitigate risk as far as possible, rather than expecting to eliminate it altogether. The key strategic risks to the Authority are subject to regular review by the Management Board and Heads of Service.

3.1.6 Use of Resources

EFDC maintained its budgetary monitoring processes during 2006/07 to ensure that financial resources were being used to their best advantage, via management reporting to the officer Management Teams, and to Members. The quarterly reporting to the Finance and Performance Management Standing Panel was further developed during the year and expanded to include key capital projects.

Financial planning is underpinned by service planning, with increased expenditure in any service area being justified alongside other competing budget requests to the Overview and Scrutiny Committee's Finance and Performance Management Standing Panel and Cabinet, as part of the annual budget process. Key to the service planning process is a requirement to demonstrate planning for continuous improvement over several financial years. The Cabinet has to prioritise resource allocation to ensure that the objectives within the Corporate Plan are supported by the individual service plans, and that improvements are in line with corporate aims and objectives.

Economic, effective and efficient use of resources is subject to review through the work of both Internal and External Audit, through benchmarking and the use of comparative techniques with other service providers, and through independent external review.

In 2006/07 the Council's External Auditor, as part of the annual Use of Resources assessment, evaluated for the second time how well Councils manage and use their financial resources. The first assessment had acknowledged that the Council was in a sound financial position and had established proper arrangements to monitor its financial position and take appropriate remedial action where necessary. The second review built on the previous year's work and updated it for any changes and improvements to the Council's arrangements

The second report provided further evidence of the effectiveness of the Council's arrangements for securing value for money. In March 2007 the Council's Use of Resources was scored as 2 (out of 4), and cited a number of improvements since the previous year (also scored as 2). The key findings included the maintenance by the Council of a sound medium term financial strategy, improved quality of final accounts

working papers, improvements in systems for income collection, and significant improvements to risk management arrangements. It was also reported that the Council was making progress in developing a value for money culture, which put it in a strong position to improve value for money in the future.

The latest report on Use of Resources recommended that the Council:

(a) takes forward the development of the Council's improved approach to value for money and procurement, by demonstrating outcomes in terms of driving up performance and improving value for money, especially in priority services. This work is now being taken forward by a focused Action Group led by a Head of Service;

(b) ensure that the process to produce the accounts for 2006/07 and future years result in accounts that are again free from material error and comply with the CIPFA/LASAAC statement of recommended practice. The Head of Finance is liaising closely with the external auditors to maintain the recent improvement in the closure of accounts process;

(c) ensures that in promoting external accountability, the Council can demonstrate that stakeholder views have been sought on summary financial information and used to inform whether or not to produce an annual report, and the format it should take. Following the publication of the annual report stakeholder views were sought through press releases, the Council's magazine and website. Unfortunately the very limited response received has not been of any use in informing subsequent decisions. The Council will consider other means by which stakeholder views can be obtained;

(d) communicates the key messages from its medium term financial strategy more proactively with staff and other stakeholders. An abridged version of the medium term financial forecast will be issued to staff and the Council will consider ways of engaging other stakeholders;

(e) maintains the level of training in financial matters, according to need, to ensure that the level of heightened awareness of financial requirements and Financial Regulations is maintained. The programme of bi-annual training is being repeated in 2007/08 in order to ensure that relevant staff are trained or have the opportunity to attend as a refresher;

(f) considers the steps necessary to achieve the highest level of conduct by its staff, members and contractors. A new Code of Conduct was issued to all staff in December 2006 in tandem with a declaration of interest process. The declarations have been reviewed by Management Board and indicate high standards of conduct amongst staff. In regard to members of the Council, regular meetings of the standards committee and training courses are held to emphasise the importance of compliance with the Code of Conduct;

(g) continue to progress with the risk management agenda to ensure it is embedded throughout the Council. Officers from all services continue to meet on a quarterly basis to share good practice, and the corporate risk register is now in place and reviewed bi-annually by a Cabinet Committee; and

(h) sets challenging targets for key financial health indicators. The Council has prioritised key financial indicators, like collection rates for Council Tax and National Non-Domestic Rates and the prompt payment of suppliers invoices, and has set targets based on top quartile performance.

3.1.7 Financial Management

Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Section 151 Officer. The systems of internal financial control provide reasonable but not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be promptly detected.

In the 2006 Use of Resources Assessment the Council scored 3 out of 4 for financial management, assessed by the Audit Commission as “performing well”. The Audit Commission concluded that the Council’s medium term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities. It was also stated that financial performance is actively managed against budgets and the Council manages its asset base.

Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability.

In particular, the process in 2006/07 included:

- The rolling forward of the Council’s four year financial forecast, updated annually;
- The setting of the annual budget, continuing the existing practice of separating the base budget for continuing services, from the fund established to meet the cost of ‘one off’ items of revenue expenditure;
- The adoption of a five year capital strategy, previously assessed by the Government Office as “good”;
- Monitoring of actual income and expenditure against the annual budget;
- Setting of financial and performance targets, including the monitoring of the prudential code and associated indicators;
- Periodic reporting of the Council’s financial position to Members;
- Clearly defined capital expenditure guidelines;
- Management of the Council’s property portfolio, including disposal of surplus sites, in line with the Council’s Asset Management Plan;
- The monitoring of performance on a quarterly basis; and
- Managing risk in key financial service areas.

3.1.8 Internal Audit

The Internal Audit Team reports to the Joint Chief Executive (Resources) and operates under an annual Audit Plan, which sets the audit work plan for the year and the framework within which its activities were monitored by the Finance and Performance Management Cabinet Committee during 2006/07. The main responsibility of the Internal Audit Team is to provide assurance and advice to the Management Board and Members, on the internal control system of the Authority. Internal Audit provides an independent view on the adequacy, reliability and effectiveness of internal control within systems, and recommends areas for improvement. It also supports management in developing systems, and in providing advice on matters related to risk and control.

The controls created by management are evaluated to ensure:

- Council objectives are being achieved;
- Economic and efficient use of resources;
- Compliance with policies, procedures, laws and regulations;
- The safeguarding of Council assets;
- The integrity and reliability of information and data; and
- The identification and control of risk

The Chief Internal Auditor produces an annual internal audit report for Members, and the overall audit opinion contained in the 2006/07 report is that the Council continues to operate within a satisfactory control environment. This opinion was based on reports submitted to Service Management during 2006/07, which concluded that systems were generally operating satisfactorily, and appropriate follow up action had been taken where required from previous audits.

3.1.9 Performance Management

Continuous service improvement is promoted via the Council's performance management framework, which links the aims and actions of the Council Plan to the targets and priorities of individual staff via the annual staff development review process.

The Council sets its overall priorities as a way of informing the decision making process and budget setting cycle. To this end the Council has six key 'policy themes', as referred to at paragraph 3.1.1 above. Within each theme there are a number of more specific aims, which are monitored through the performance management system. The policy themes align the Council's priorities with those of the Local Strategic Partnership (LSP) where these are congruent.

The former Overview and Scrutiny Committees identified potential enhancements in the performance monitoring systems to improve their usability and value to the Council. This formed the basis of a revised system of monitoring under the new scrutiny arrangements for 2005/06 onwards. In the first year of operation the Council

exceeded its target, attaining 44% of KPIs at top quartile performance. At its meeting in July 2006, the Cabinet adopted an objective, for performance against 50% of all BVPIs for the year (52 in number), to be in the top quartile of district councils. These key BVPIs are monitored by Management Board on a regular basis and reports are submitted to the Finance and Performance Management Scrutiny Panel, in order to drive and monitor improvement in those Service areas considered to be of vital importance in delivering the Council's main policy and Service objectives. Following the first year of monitoring in this way, the make up of the 40 key performance indicators will now be reviewed in the context of the evaluation of performance for the full set of BVPIs.

4. REVIEWS OF EFFECTIVENESS

4.1 EFDC has a statutory responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by:

- The work of the Internal Auditors;
- The work of managers within the Council;
- The External Auditors in their annual audit letter and other reports; and
- Comments by other review agencies and inspectorates.

4.2 The Finance and Performance Management Cabinet Committee (Audit and Governance Committee from 2007/08) receives quarterly updates from the Chief Internal Auditor on the progress against the Audit Plan during the year, along with an annual assessment at the year end. Within these reports there is a strong focus on matters relating to the effectiveness of internal controls and management of risk.

4.3 Individual Cabinet Members receive regular feedback from senior officers within their portfolios, on the delivery of services and the achievement of objectives and targets. Issues of strategic importance are now reported via the Overview and Scrutiny Committee.

4.4 As indicated above, the Chief Internal Auditor has placed a satisfactory level of assurance on the systems of internal control in place during 2006/07.

4.5 Within the Audit Commission's Annual Audit and Inspection Letter published in March 2007, the Council was assessed as showing significant improvement in its financial reporting and risk management arrangements. It was also stated that the Council has a good track record in financial management, and in maintaining a sound financial position. It had also improved its systems for monitoring the effectiveness of income collection.

4.6 The Council received an unqualified opinion from the Audit Commission on its Statutory Accounts for 2005/06.

4.7 Changes to the Accounts and Audit Regulations, effective from April 2006, include a requirement for the Authority to carry out an annual review of the effectiveness of its system of internal audit as part of the wider review of the effectiveness of the system of internal control. The Council's Corporate Governance Group has undertaken the

review of EFDC's Internal Audit Service in 2006/07 utilising the following main sources of evidence:

- Annual report and opinion of the Chief Internal Auditor;
- A review of the Internal Audit Service against CIPFA standards using a check list provided in the guidance;
- The Audit Commission report dated May 2006 on the review of Internal Audit (previously reported to Members in June 2006);
- A review of Internal Audit monitoring reports for 2006/07;
- Comments from the Joint Chief Executives following their consideration of individual audit report summaries;
- The role of Management Board in monitoring the work of Internal Audit and any significant internal control issues raised in their reports;
- Consideration of significant corporate control issues highlighted in audit reports, discussed within the Senior Management Team;
- Performance by Internal Audit against local performance indicators;
- Feedback from Senior Management in an annual survey; and
- The Internal Audit Section Business Plan and work plan for 2007/08

4.8 The Corporate Governance Group concluded that the Council has benefited from a strengthened Internal Audit section in recent years, which can demonstrate that it has a good understanding of the functions of the Council and has achieved the Council's objective to identify improvements to its control systems. The Audit Commission relies to a large extent on the work of the Council's Internal Audit Section and has made very few recommendations for the improvement of the service.

4.9 The establishment of an Audit and Governance Committee, with independent membership, will emphasise the importance of independent review of internal and external audit processes, as a key part of the Council's arrangements for securing further improvements in its systems of internal control.

4.10 All of the recommendations agreed with the Audit Commission in its review of Internal Audit in 2006 have been implemented. The main issue for improvement arising from the current review relates to the updating of the Audit Manual, which is being undertaken as a priority task. Progress on this issue will be reported to the Audit and Governance Committee. None of the issues identified are of sufficient significance to be highlighted within the Council's Statement on Internal Control.

4.11 Having considered these issues the Corporate Governance Group is satisfied that the system of internal audit was effective during 2006/07.

5. IMPROVEMENTS DURING THE YEAR

5.1 In the period covered by this Statement, improvements have been made to the Council's arrangements in respect of the following areas:

Improvement Areas for 2006/07 identified in last year's Statement

- The arrangements for the recovery of the Council's debts has been recognised by both Internal and External Audit as an area where significant improvements were made in 2006/07. An internal audit highlighted new ways of corporate working and improved collection rates. An overall collection rate of 82% was being maintained, compared with 77.7% in 2005/06.
- Earlier Internal Audit reviews and investigations had confirmed a degree of misuse, by some staff, of the Council's internet, email, and telephone facilities. The local policies for the use of these facilities were reviewed during 2006/07, and will be re-issued to staff during 2007/08 with a strong message from senior management that abuse will not be tolerated.
- Two further sessions of finance and financial regulation awareness training were provided to groups of managers and other staff with financial responsibilities across the Council.
- All key BVPIs continue to be monitored by Management Board on a regular basis. A new performance management system was introduced in July 2006, with the aim of providing better quality, more timely information to management. Detailed data quality reviews were undertaken by Internal Audit and the Performance Management Unit during 2006/07.

Other Improvements during 2006/07

- The Council's Contract Standing Orders and Delegated Authorities have been updated and a revised version was published during 2006/07;
- The Council's Financial Regulations were reviewed during 2006/07 and were formally adopted by the Council in April 2007;
- The Council adopted a comprehensive Value for Money Strategy supported by the development of a value for money analysis tool;
- The Council entered into an agreement with the Essex Procurement Hub to provide expert and economical support for major procurement exercises, and to assist with other ongoing procurement developments;
- The Council rolled out the Essex Marketplace ordering system across the majority of Council Services, to provide a more secure and controlled environment, with the benefit of making more transparent the cost of goods and services throughout the Council;
- The Council established a Data Quality Strategy, the aim of which is to codify responsibilities for data quality in the organisation, and ensure data is

accurate and verifiable. Progress against these aims will be evaluated in the forthcoming data quality self assessment;

- The Council adopted a Business and Internal Control Assurance Framework, to demonstrate the robustness of the Council's governance arrangements and their consistent application across Council services;
- The Council made arrangements for the establishment of an Audit and Governance Committee, in line with CIPFA guidance, in order to demonstrate independent assurance on the adequacy of the Council's risk management and control arrangements;
- A corporate policy in respect of team building events was agreed by Management Board. This followed an event held at a venue and at a time considered inappropriate for such a purpose, referred to in paragraph 3.1.5;
- The Council's Anti-fraud Strategy is available to the majority of staff via the Council's intranet, and induction training on the existence and purpose of the strategy is given to new Council employees. The Strategy and associated policies were re-issued to all staff in 2006/07;
- All Internal Audit reports now include a section on the implications of the report on the Council's Statement on Internal Control, as an aid to management in highlighting key control issues;
- A review of the effectiveness of the Council's system of internal audit was undertaken and reported to Management Board during 2006/07. A report will be submitted to the Audit and Governance Committee in June 2007, alongside the Internal Audit Annual Report for 2006/07;
- A detailed Internal Audit study was undertaken into the use and cost of consultants across all Council services, which concluded that both revenue and capital costs appeared to be reasonable, with rates generally comparing reasonably to market rates; and
- All Heads of Service have again reviewed the internal controls operating within their Service Areas, and have provided assurance statements confirming their belief that appropriate controls were in place during 2006/07. The issues previously identified in 2005/06 have also been addressed in the latest statements.

6. SIGNIFICANT INTERNAL CONTROL ISSUES

- 6.1 Internal audits undertaken during 2006/07 have shown that weaknesses persist in the application of some of the Council's systems of internal control as defined in Financial Regulations. Repeating the finance awareness training during 2007/08 will support managers and other staff with financial responsibilities.
- 6.2 The Council has strong internal controls in place to minimise the risk of fraud, and maintains a culture that will not tolerate fraud or corruption, whether from inside or outside the Authority. Despite the assurance provided by these controls the Audit Commission advises that the Council needs to be able to demonstrate more explicitly that its staff, members and contractors display the highest standard of conduct in ensuring probity in the conduct of the Council's business. The Council acknowledges the advice of the Audit Commission and will consider the risk of fraud more explicitly in the future. A range of measures will be considered, including the appropriateness of existing ethics training for staff.
- 6.3 An Internal Audit report identified that there is a need for a more strategic approach in sourcing external funding, to ensure that additional funding is being sought in priority service areas. This should involve corporate support and co-ordination, dedicated financial and staffing resources, and a framework to be put in place for securing and managing external funding. An officer working group is taking this work forward under the leadership of a Head of Service.
- 6.4 Internal and External Audit reports have highlighted the need for regular reconciliations of financial systems. The Head of Finance has put in place arrangements to ensure that this function is undertaken, and compliance will be tested as part of the audits of the relevant systems undertaken in 2007/08.
- 6.5 On the basis of the relevant internal audit reports, the unqualified nature of the Council's accounts in recent years, and the assurance statements provided by Heads of Service, we are satisfied that, except for the matters referred to in paragraphs 6.1 to 6.4 above, the internal control arrangements for Epping Forest District Council are adequate, appropriate and operating effectively.

7. CERTIFICATION

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, plans to address the weaknesses and ensure continuous improvement of the system is in place.

We are satisfied that these steps will address the need for improvements that have been identified during the year and we will review their implementation and operation as part of our next annual review.

Signatures:

..... **Leader of the Council**

Date:

..... **Joint Chief Executive
(Resources)**

Date:

..... **Joint Chief Executive
(Community)**

Date:.....