

## REVISED

### STATEMENT ON INTERNAL CONTROL FOR 2005/06

#### 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 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 2006, 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 2005/06 and is available on the Council 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:

- a safe, healthy and attractive place
- an organisation that listens and leads to resolve local issues; and
- accessible, affordable and improving services

Progress towards the achievement of the objectives is monitored through the Performance Management Framework that was introduced in 2003/04 and updated during 2005/06. A full review of the actions included in the Plan took place in February 2006, carried out by the Finance and Performance Management Scrutiny Panel.

Towards the end of 2005/06 the Council Plan 2006/10 was drafted and was in the course of being consulted upon with a wide range of stakeholders. It is intended that the Plan will be formally adopted by the Council in July 2006, following extensive community consultation.

### **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 and the action plan will be reviewed by Overview and Scrutiny Committee during 2006/07.

### **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 undertaken its first two adjudications on complaints against Councillors. Work also commenced on its first two local investigations and these will lead to further local adjudications. The Committee has hosted four training courses on the Code of Conduct and Planning Protocol for both Parish and District Councillors. Revised ethical advice on conduct in respect of outside organisations, planning, on gifts and hospitality and use of member facilities were issued during 2005/06. Resourcing of the investigation/adjudication processes has emerged as a concern, as has the difficulty in ensuring that those processes remain able to resist challenges based on conflicts of role for the Monitoring Officer and her staff.

#### **3.1.4 Remuneration Panel**

The Statutory Remuneration Panel has met during the year. It advised 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.

The Panel comprises the independent persons appointed in 2001.

#### **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. Two key documents are the Financial Regulations and the Contracts Procedure Rules, which are available to all officers via the Council's Intranet as part of the Constitution. 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 2005/06 on the development of the Council's risk register, and both officers and members have received training in risk management issues from a specialist consultant. 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 to ensure a consistent approach to risk management across the Authority. During the year, Internal Audit followed up the findings of the audit of risk management undertaken in 2004/05, and were able to confirm that there had been further improvements in the Council's risk management processes.

The Council's systems of internal control identified some weaknesses in the application of some of the Council's systems, and occasional lapses in the application of Financial Regulations during 2005/06. The main concerns included the misappropriation of cash by an employee in one Service, and the abuse of time keeping by a group of employees in another Service. There was also a general concern regarding segregation of duties in all services between the raising and authorisation of purchase orders, and the certification of invoices. These issues were picked up through the Council's internal control mechanisms and were 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. A follow up audit of the purchase ordering and invoicing system identified positive improvements in the system, following training provided to managers across all Services.

It should be borne in mind that the systems of internal control are designed to mitigate risk as far as possible, rather than aiming to eliminate it altogether. The key strategic risks to the Authority will, from 2006/07, be subject to regular review by the Management Board, Heads of Service and the Finance and Performance Management Cabinet Committee.

### **3.1.6 Use of Resources**

EFDC maintained its budgetary monitoring processes during 2005/06 to ensure that financial resources were being used to their best advantage, via management reporting to the officer Corporate Programme Groups, and to Members via the Finance and Performance Management Scrutiny Panel.

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.

From 2005/06 the Council's External Auditor, as part of the annual Use of Resources assessment, evaluates how well Councils manage and use their financial resources. The first assessment 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 reports recommended that the Council:

- a) improve the systems in place to ensure value for money was being delivered in all service areas. This work is now being taken forward by a multi disciplinary group led by a Head of Service.

- b) ensure that the new performance management system was embedded and used effectively so that it contributed towards demonstrable and sustained service improvement. The Head of Human Resources and Performance Management is driving improvement in this area and Internal Audit conduct regular reviews to monitor progress.
- c) ensure that the process to produce the accounts for 2005/06 and future years result in accounts that are 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 improve the closure of accounts process.
- d) 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 following the involvement of Members in the process.

### 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 detected within a timely period.

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 2005/06 included:

- The rolling forward of the Council's four year financial strategy, now 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 three 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;

- Managing risk in key financial service areas.

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 are monitored by the Finance and Performance Management Cabinet Committee. 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

### **3.1.8 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 three 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 new, draft Council Plan seeks to 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. At its meeting on 6 June 2005, the Cabinet adopted an objective, for performance against 40% of all BVPIs for the year (40 in number), to be in the top quartile of district councils. These key BVPIs are monitored by Management Board on a quarterly basis and regular reports are now 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. REVIEW OF EFFECTIVENESS**

- 4.1 EFDC has 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 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.
- 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 Based on an overview of the work undertaken throughout the year, in conjunction with previous years' work and current risk assessments, the Chief Internal Auditor has placed a satisfactory level of assurance on the systems of internal control in place during 2005/06.
- 4.5 Within the external Comprehensive Performance Assessment undertaken in 2004, the Council was assessed in overall terms to be a "good" and financially sound Authority. A detailed Improvement Plan is in place and progress is regularly monitored by the Council's Management Board and the joint Member/Officer Improvement Team.
- 4.6 The Council has, over the past few years, received positive Annual Audit letters from the External Auditor, which includes unqualified accounts.

#### **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 2005/06 identified in last year's Statement**

- A 'user friendly' summary of Financial Regulations, to help raise awareness and understanding, has been published on the Council's intranet. This followed four sessions of finance awareness training, provided to 90 managers and other staff with financial responsibilities across the Council.
- Following a review of the Council's performance management arrangements, monitoring of key BVPIs by Members is now focussed on 40 indicators where a target has been set to achieve top quartile status for District Councils. All BVPIs and Service improvement areas continue to be monitored by Management Board on a quarterly basis. A new performance management system is being introduced in July 2006, with the aim of providing better quality, more timely information to management.



- The Council's risk management processes have continued to be strengthened by the training of officers and members, the completion of risk management action plans across Service areas, and the production of a new Corporate Risk Register in March 2006.

### **Other Improvements during 2005/06**

- The Council's Contract Standing Orders have been updated and a revised version was published during 2005/06.
- A revised scheme of virement was adopted in 2005/06, designed to facilitate more flexible financial management.
- In July 2005 the Council approved formal guidelines to Members on the acceptance of gifts and hospitality.
- A protocol on the use of Council facilities by Members (including IT facilities) has been agreed by the Council in liaison with the local Standards Committee.
- Revisions to the Council's planning protocol were agreed by the Council in December 2005
- A protocol to guide Members and officers when representing the Council on Outside Organisations was formally adopted during 2005/06.
- A management instruction was issued to all staff, reminding them about acceptable use of the internet. The Council's Internet Policy was revised towards the end of 2005/06 and will be re-issued to all staff in 2006/07.
- A Staff Code of Conduct was drafted in 2005/06 and will be issued to all staff in 2006/07 once it has been through the consultation process with staff representatives, and approved by the Council.
- 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.
- A policy for dealing with close personal relationships at work was introduced in July 2005. This ensures that risks are identified and managed in such circumstances.
- In order to demonstrate accountability, and improve communications with Service users and other stakeholders, a suite of annual reports for 2005/06 have been prepared. The reports cover the functions of the Cabinet, Overview and Scrutiny, the Standards Committee and the Remuneration Panel.
- 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 2005/06. The issues previously identified in 2004/05 have also been addressed in the latest statements.

**6. SIGNIFICANT INTERNAL CONTROL ISSUES**

- 6.1 Internal audits undertaken during 2005/06 have shown that weaknesses persist in some of the Council's systems of internal control as defined in Financial Regulations. It is proposed to assist managers and other staff by repeating the finance awareness training during 2006/07, and by issuing ad hoc advice where appropriate.
- 6.2 The quality of performance information is still not satisfactory in all Services, and both Internal and External Audit have raised concerns about the quality of PI data and an apparent lack of consistency in the approach to quality checking by managers. Improvements will be monitored with a view to avoiding such criticisms in future.
- 6.3 The arrangements for the recovery of the Council's debts has been recognised as an area for improvement, and an external consultants' report has also indicated that corporate processes are in need of review in order to improve cash flows and reduce the level of write offs. Finance and Legal Services have been working on a system of enhanced procedures. Internal Audit will be conducting a detailed review during 2006/07.
- 6.4 A number of Internal Audit reviews and investigations have suggested that there is 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 are currently under review, and will be re-issued to staff during 2006/07 with a strong message from senior management that abuse will not be tolerated.
- 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:**.....