



***Statement***  
***on***  
***Internal Control***  
***2005/2006***

published May 2006

## **1. SCOPE OF RESPONSIBILITY**

Harrogate 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. 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.

In discharging this overall responsibility, Harrogate Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

## **2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Harrogate Borough 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.

The system of internal control has been in place at Harrogate Borough Council for the year ended 31<sup>st</sup> March 2006 and up to the date of approval of the annual report and accounts.

### **3. THE INTERNAL CONTROL ENVIRONMENT (Key Elements)**

The Council has adopted a Constitution that sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.

The Council is made up of 54 elected members. At its annual meeting in May each year the Council appoints a Leader and Cabinet (the Executive) for the year. The Executive is part of the Council and is responsible for day-to-day decisions. The Executive has to make decisions that are in line with the Council's overall budget and policy framework as set by the Council. If they wish to make a decision outside of this framework, this must be referred to the Council.

Three Overview and Scrutiny Commissions support the work of the Executive and the Council as a whole. One of these Commissions fulfils the roles and responsibilities of an Audit Committee, as set down in the CIPFA Code of Practice.

Meetings are open to the public except where personal or confidential matters are being disclosed.

The Council has also adopted a Code of Conduct for Members, supplemented by guidance from the National Standards Board, and established a Standards Committee to adjudicate complaints against elected members. The Council has also adopted a new Code of Conduct on Development Control matters.

The Council has officers to give advice, implement decisions and manage the day-to-day delivery of its services. Senior officers of the Council can make decisions under a General Scheme of Delegation to Officers. Some officers have a specific duty to ensure that the Council acts within the law and uses its resources wisely. A code of practice governs the relationships between officers and members of the Council.

The Council has designated the Chief Solicitor as the Monitoring Officer, responsible for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer reports to full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration.

The Council has an advertised Customer Care Policy and complaints procedure. The Monitoring Officer acts as a clearing-house for complaints of a more serious nature or those not resolved satisfactorily. The Head of Legal and Democratic Services co-ordinates dealings with the Local Government Ombudsman. Elected members play a significant role in ensuring compliance and propriety, collectively, through Overview and Scrutiny, and individually as ward members, providing feedback from constituents.

The Council has a corporate planning framework, which includes a Strategic Plan, Corporate Action Plan (Corporate Improvement Plan from 2005/2006),

Performance Plan and Departmental Business and Service Plans. These plans are reviewed regularly to measure progress and rolled forward each year for approval.

The Council publishes its long-term vision and corporate priorities in its Strategic Plan, which sets out the policy framework for the Council to deliver its ambitions, improvements, services and functions over the next 3 years.

The Council sets out its planned actions and targets to deliver its organisational improvement agenda and goals in a Corporate Improvement Plan, updated annually.

As part of its Best Value arrangements to ensure the economic, effective and efficient use of resources and to secure continuous improvement, the Council publishes a Performance Plan each year, which explains its performance in the previous year and its plans for the coming year and a summary Performance Plan 'On Target' each year.

The Council tracks its performance on national and local performance indicators, progress on actions, and reports at both a corporate and service level through the Covalent web-based performance management information system.

The Council meets its commitment on public consultation and research through a Community Engagement Strategy, a Corporate Register of Consultation and a Public Involvement Group.

The Council is subject to statutory external audit and inspection regimes by the Audit Commission and other bodies including the Comprehensive Performance Assessment (CPA), and annual Use of Resources Assessment. The Audit Commission publish a 'Use of Resources Report' and an 'Annual Audit and Inspection Letter' each year.

The Council has adopted a Code of Corporate Governance in accordance with the CIPFA / SOLACE Framework for Corporate Governance.

The Council has robust arrangements for identifying and assessing all significant risks. The Council has published a Risk Management Strategy and Policy and a Strategic Risk Register since November 2003.

Risk management is included as a specific responsibility in each Cabinet Member's portfolio. Overall arrangements for risk management are co-ordinated by a joint member and officer Risk Management Steering Group, led by the Chief Executive, with representatives from each department, the Executive and Overview and Scrutiny.

Corporate and strategic risk management is co-ordinated by a qualified officer: other officers have responsibility for key aspects of risk management, including Insurance, Health & Safety and Business Continuity Planning.

Chief Officers and Heads of Service are responsible for ensuring that risks and controls are considered in their business planning, decision-making and service delivery, and included in a Departmental Risk Register, updated regularly in collaboration with the Cabinet Member.

Risks are identified in Cabinet, Corporate Management Team (CMT) and other reports using a standard risk register and risk matrix to illustrate the risks of taking or not taking a decision or course of action. Risk registers identify and score risks and identify the controls and mitigating strategies in place to manage them. Cabinet, CMT and the Audit Committee monitor risk management arrangements regularly.

The Council has an approved Corporate Health and Safety Strategy and Action Plan. The strategy is delivered by a Corporate Health and Safety Group and Departmental Groups. Health and Safety also features as a standing item on CMT and Departmental Management Team (DMT) agendas. The Council's financial management is conducted in accordance with the Budget and Policy Framework Procedure Rules, Financial Procedure Rules and Contract Procedure Rules as set down in the Constitution. These rules set out the framework within which the Council conducts its financial affairs and ensures proper financial arrangements are in place.

The Director of Resources is designated as the Chief Financial Officer in accordance with Section 151 of the Local Government Act 1972 and other relevant legislation. He prepares and submits annually a Medium Term Financial Strategy, Revenue Budget and Capital Programme for approval by Cabinet. After review by the Overview and Scrutiny Commissions, the Cabinet agrees final reports on financial strategy, revenue budget, capital programme and tax levels for submission to the Council. The Director also prepares and publishes an annual Statement of Accounts that conforms to all statutory and professional requirements, codes of practice and timetables.

The Director of Resources is responsible for determining the accounting procedures, the form of financial records and statements and for maintaining the financial accounts of the Council. He ensures that proper accounting arrangements are established in all departments. Chief Officers are responsible for the satisfactory operation of financial and accounting systems within their departments. Heads of Service are responsible for planning and managing their budgets to meet the agreed bottom line budget figure for their Business Unit.

The Director of Resources maintains an Internal Audit Section in accordance with the Accounts and Audit Regulations 2003 and the 'Code of Practice for Internal Audit in Local Government in the UK.'

The Audit Manager produces a 4 year Strategic Audit Plan and Annual Audit Plan for approval by the Director and the Cabinet Member and reports regularly on its delivery. The Audit Manager produces an Annual Report and expresses an audit opinion based on the level of assurance gained from the audit work carried out during the year.

The Council publishes an Annual Efficiency Strategy and submits Annual Efficiency Statements twice a year to the Department for Communities and Local Government in accordance with the relevant legislation (the 'Gershon Agenda').

The Council publishes a Corporate Procurement Strategy that is aligned to the National Procurement Strategy for Local Government.

The Council publishes an Incident Response Scheme and supporting documentation in accordance with its responsibilities under the Civil Contingencies Act 2005.

The Council has an Anti-Fraud and Corruption Strategy and publishes a Whistle Blowing Policy.

The Council has a new Project Management Code of Practice.

#### **4. REVIEW OF EFFECTIVENESS**

Harrogate Borough 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 is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for developing and maintaining the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The restructure of the Council, approved during 2004/2005, and implemented from 1 April 2005, created the new Department of Corporate Policy and Improvement (DCPI) to provide the enhancement to corporate capacity that the CPA 2004 Inspection indicated was required. DCPI leads the Council's improvement agenda, building on recognised strengths and addressing areas of acknowledged weakness.

DCPI leads the following functions relevant to the system of internal control: corporate planning: use of resources and value for money: efficiency: governance (including Statement on Internal Control): risk management: performance management: Best Value: consultation: project management: civil contingencies: strategic procurement.

The other primary contribution to the internal control environment comes from the Department of Resources and includes: Legal and Democratic (Constitution) role: Monitoring Officer role: all aspects of financial management including internal audit.

In March 2006 the Council received two major reports from the Audit Commission, its external auditor and inspector. These reports provide key independent evidence on a range of issues and are therefore of considerable value as a source of assurance when reviewing the effectiveness of the Council's internal control environment.

The 'Use of Resources Audit Score Feedback 2005/2006' report is the Audit Commission's reply to the Council's 'Comprehensive Performance Assessment 2005 Use of Resources Key Lines of Enquiry Self Assessment' submitted in September 2005. The Council scored 3 (consistently above minimum requirements – performing well) for Financial Reporting, Financial Management, Financial Standing, and scored 2 (at minimum requirements - adequate performance) for Internal Control, and Value for Money. The overall score was 2. The Audit Commission acknowledged that a number of improvements were already underway since the restructure and that the Council was making good progress.

The 'Annual Audit and Inspection Letter 2004/2005' focuses on the Council's corporate governance arrangements and in particular performance management, the opinion on the accounts, and the financial aspects of corporate governance. The letter also includes the Audit Commission's opinion on the Council's 'Direction of Travel', the 'Best Value Performance

Plan' and a summary of other specific performance reviews and inspections. The letter comments further on some of the key elements of the internal control framework identified in the Use of Resources report. The tone of the letter is positive and has been very well received.

Where possible the review of effectiveness below draws on these reports as sources of assurance. Paragraphs with the suffix '*Section 5*' indicate an issue reported in Section 5 of the previous year's Statement on Internal Control (now addressed) or an issue included in Section 5 of this current Statement (with an action plan to address).

The Head of Legal and Democratic Services aims to update the Council Constitution after each Council meeting and before the next Council meeting (*Section 5*).

The outstanding review of Financial Procedure Rules and Contract Procedure Rules was carried out and the updated rules were approved in November 2005 (*Section 5*).

The Council Resources Overview and Scrutiny Commission received training to help to develop its role as the Council's audit committee. During 2005/06 Members were involved in reviewing the Statement on Internal Control 2004/05, Risk Management Strategy, Internal Audit reports and Audit Commission planning process for 2006/07. A proposal is under consideration to restructure Overview and Scrutiny to establish a dedicated Governance Panel in 2006/07 to fully meet the requirements for an audit committee, supported by further member training (*Section 5 SIC 2005/2006*).

All members have signed up to the Council's Code of Conduct for Members and the new Code of Conduct for development Control Matters. The Monitoring Officer disseminated guidance and provided training and advice to elected members on their compliance with the Code, which is assessed through the Standards Committee.

The Standards Committee received an annual report in August 2005 on the outcome of complaints made to the Standards Board since August 2004. Of 36 allegations made only 2 were investigated and concluded that the Code had not been breached. Of 9 allegations made to the Standards Sub-Committee, 2 were upheld in respect of failure to register interests but no action was taken as this was subsequently done.

The Monitoring Officer, Legal and Member Services Officers attended all formal meetings of elected members to advise on the legal and constitutional aspects of their responsibilities under the Code, the process and decisions prior to them being made.

There is a Staff Code of Conduct and departmental registers of gifts, hospitality and interests. These were reviewed during 2005/2006 and no significant issues raised.

The Local Government Ombudsman's Annual Letter reflecting on 2005/2006

will not be available until July 2006: the letter includes statistics on the number of complaints received, the Ombudsman's decisions and response times to complaints. This will be picked up in half-year update to the Statement, to be introduced in 2006/2007.

The Council revitalised its corporate planning process and plans, implemented a number of key improvements in monitoring arrangements and provided a clearer focus on its internal and outward looking improvement agenda. The Council reviewed its long-term vision and agreed 7 corporate priorities in October 2005, each of which is supported by key actions and 3-year 'SMART' targets for their delivery (*Section 5*).

The Council implemented the Covalent Performance Management Information System in 2005/2006. Audit work on Best Value Performance Indicators, undertaken jointly between external and internal audit progressed well again this year with only 5 minor amendments required. Recommendations made last year have been fully addressed.

The Council undertook 3 major consultations with its District Panel, including for the first time in 2005/2006 an intranet / Internet based consultation. The Council took part in the 'Citizenship and Participation' consultation as part of the Joseph Rowntree Charitable Trust research project '*The State of Local Democracy*'.

There was positive assurance on the Council's Corporate Governance arrangements: however, the Council's Code of Corporate Governance was not subject to review in 2005/2006 (*Section 5 2005/2006*).

Following the transfer of responsibility to DCPI in April 2005, the Council's Risk Management arrangements were fully reviewed in 2005/2006. A revised Corporate Risk Management Strategy 2005 – 2008 was approved and published in February 2005. CMT approved updates to the Strategic Risk Register in March and May 2006. Further work was done to revise Risk Management Policy and Guidelines and produce a Risk Management Toolkit. New monitoring arrangements were also approved.

Publication of these documents has been deferred pending the migration of risk management onto the Covalent Performance Management Information System when the new version is available in June 2006. This will enable risk management to be more fully embedded with corporate planning and performance management. Risk management is also embedded into the new corporate Business Planning Guidelines, developed during 2005/2006 for use during business planning in 2006/2007.

Risk management training was provided to the Council Resources Overview and Scrutiny Commission in their role as the Council's Audit Committee and to various groups of staff including major corporate project groups, management teams and other corporate groups such as the Business Support Managers Group.

Risk management made a significant contribution to a range of major

decisions, projects and initiatives during 2005/2006 including: Customer Service Unit / Customer Relationship Management System: Replacement HR / Payroll System: Paddling Pools re-opening: Council Restructure: Single Status: Royal Hall: Working Balance.

The Audit Commission reported that 'The Council has some good risk management processes in place, but is aware that these need improving. Therefore it is currently in the process of reviewing these and developing improved arrangements that will take them on to the next level.' Progress made since September 2005 and planned after the move to Covalent PMIS in June 2006 will deliver these improvements (*Section 5*).

CMT received regular reports on progress made in implementing actions set down in the Corporate Health & Safety Strategy, in particular implementation of a corporate Health & Safety Policy Statement and Safety Responsibility Statements. The Council was selected by the HSE to implement 'Management Standards for Work Related Stress' across the authority and runs well attended courses accredited by the Institute of Occupational Safety and Health.

The Director of Resources has fulfilled his statutory duties and expected role as Director of Finance in 2004/05. He ensured preparation of the Council's financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2002: A Statement of Recommended Practice.

The Medium Term Financial Strategy (MTFS) was reviewed and updated for the period 2005/2005 to 2007/2008 by the Council in July 2002 and its objectives, including a target balanced budget, endorsed. The General Fund Budget for 2005/2006 was considered by Overview and Scrutiny Commissions and approved by the Council in February 2004. The approved budget was a balanced budget and within the targets agreed in the MTFS. The Statement of Accounts for 2004/2005 included a Statement on Internal Control 2004/2005, in the recommended format, signed by the Leader of the Council and the Chief Executive, and approved by the General Purposes Committee.

The Audit Commission reported that 'The Council has good arrangements in place for compiling the Statement on Internal Control, including an assurance framework that provides members with information to support the Statement.'

The Audit Commission carried out a full review of Internal Audit during 2005/2006. They reported that 7 out of 10 of the standards set down in the 'Code of Practice for Internal Audit in Local Government in the UK' were fully met, that there was overall compliance with the Code of Practice and that Internal Audit provides an effective service. Fourteen of the fifteen recommendations made in the report have already been implemented: the remaining recommendation will be completed in 2006/2007.

The Internal Audit Annual Report notes that the audit opinion on the level of

assurance gained from internal audit work during 2005/2006 is either high or medium/high, which is a further improvement on the audit opinion for 2004/2005. Outturn was slightly higher than planned work: 91% of the planned audits were completed at the year-end with only 6 audits outstanding. Internal Audit also carried out four major investigations.

The Audit Commission did not identify any significant weaknesses in the Council's arrangements to prevent and detect fraud and corruption but noted the need for Internal Audit to include fraud and corruption when assessing audit risk. The Council has an Anti-Fraud and Corruption Strategy and a Whistle Blowing Policy, which was updated during 2005/2006 and will be relaunched in 2006/2007 (*Section 5 2005/2006*)

The Audit Commission noted there was scope to demonstrate and improve Value for Money (VfM) in the services provided and that the focus on VfM could be improved by better integrating performance and financial management (*Section 5 2005/2006*).

The Council published a fully revised Annual Efficiency Strategy 2005 – 2008 that addresses the 'Gershon' Agenda and the Council's own efficiency agenda. Both Annual Efficiency Statements were submitted on time in electronic format. The Council is a member of the Yorkshire and Humberside Efficiency Forum, which disseminates good practice and guidance on this emerging agenda. From 2006/2007 non-cash efficiencies will be entered onto Covalent PMIS to improve validation and monitoring.

A fully revised and updated Corporate Procurement Strategy 2005 - 2008, aligned to the National Procurement Strategy was published and approved in 2005/2006.

The Council published an Incident Response Scheme in 2005/06 and began a follow on review of Business Continuity Planning that includes a reassessment of business critical systems (not done since the Year 2000 exercise) and guidance on updating business continuity plans, procedure notes and manuals (*Section 5 2005/2006*).

Following acknowledged failures in the HIC Break Out Space Contract in 2004, senior officers developed new project management guidelines, reviewed and enhanced by Council Resources Overview and Scrutiny Commission and agreed by Cabinet. CMT and Cabinet approved a revised Code of Practice in July 2005, to be phased in as new schemes arise, the Royal Hall Restoration Project being the first major project. A non-construction related Code is due to be approved by Cabinet in July 2006 (*Section 5*).

## 5. SIGNIFICANT INTERNAL CONTROL ISSUES

Ref	Issue	Action
1.	The Council's Code of Corporate Governance has not been updated since it was first published in July 2002.	Update the Code to reflect changes in Council policy and procedures and any changes arising from the ongoing review of the CIPFA/SOLACE Framework Document on which it is based by 31 March 2007 (subject to the review). Responsible officer (subject to final agreement): Corporate Improvement Officer (Governance).
2.	Improve the Council's Value for Money arrangements.	Integrate Value for Money with Corporate Resource planning and reallocation, and the Efficiency Agenda. Better integrate performance management and financial management. Re-introduce a programme of service reviews. Responsible officer: Strategic Policy Officer.
3.	Revitalise the Council's Whistle Blowing Policy.	Programme of actions agreed as per the Chief Executive's memo 28 <sup>th</sup> March 2006. Responsible officers: as set down in the memo.
4.	Business Continuity Planning for business critical services has not been fully reviewed since the Year 2000 exercise.	Following a full review of the arrangements in place for the Council to fulfil its Civil Contingencies duties, a full review of Business Continuity Planning commenced 2005/06 and will be completed in 2006/07. Responsible officer: Civil Contingencies Support Officer.
5.	Establish an effective Governance Panel to meet the requirements of an Audit Committee.	Building on work from 2005/2006, a proposal is being considered to establish a Governance Panel as a standing panel of Council Resources Overview and Scrutiny Commission. Proposal includes an outline programme of meetings and training provision throughout 2006/2007. Responsible officers – Scrutiny Officer, ED-CPI, Corporate Improvement Officer (Governance), Audit Manager, Head of Legal and Democratic.
6.	Sources of Assurance on Internal Control.	The Council has well-established procedures in place for external and other corporate sources of assurance but could develop them further to encompass other, wider (departmental) sources Responsible officer: Corporate Improvement Officer (Governance) to put a proposal to the Governance Panel to lead development in this area.

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I have been advised on the implications of the results of the review of the effectiveness of the system of internal control by the Authority by Chief Officers, the Executive Director – Corporate Policy and Improvement, the Director of Resources, the Monitoring Officer, the Strategic Management

Officer, the Corporate Improvement Officer (Governance) and the Audit Manager. A plan to address weaknesses and ensure continuous improvement of the system is in place.

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PM Walsh  
Chief Executive

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Dr M Gardner  
Leader of the Council

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Date

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Date