

Mr S Nicklin
Audit Commission
Nickalls House
Metro Centre
Gateshead
Tyne & Wear
NE11 9NH

Item 9 (ii) (b)

Date: 30th September 2011
Our ref: CFA/DDN
Your ref:

Dear Steve,

International Standards on Auditing (UK and Ireland) 240 – Statement of Management Processes for discharging Responsibilities

Responsibility for preventing and detecting fraud is identified by the International Standard for Auditing (ISA) (UK and Ireland) 240 as resting with the management of the Council and ‘those charged with governance’, i.e. the Audit and governance Committee. This statement covers the role of the management’s processes for discharging its responsibilities.

ISA 240 (Fraud)

The International Standards for Auditing views fraud as either:

- the intentional misappropriation of the Council’s assets (cash, property, etc),
or,
- the intentional manipulation or misstatement of the financial statements.

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31st March 2011 and up to the date of approval of the Annual Report and Statement of Accounts.

Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, are in place and these are reviewed and updated as appropriate, which clearly define how the council operates and shows the processes and controls in place when decisions are taken and how risks are managed throughout the decision making process.

The Executive Director of Commercial and Corporate Services is the designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 ensuring lawfulness and financial prudence of decision-making, and is responsible for the proper administration of the Council's financial affairs.

The Head of Law and Governance is the Council's Monitoring Officer who has maintained an up-to-date version of the Constitution and has endeavoured to ensure lawfulness and fairness of decision making.

The Council has in place up to date Procurement Procedure Rules and Financial Procedure Rules, which are subject to regular review.

Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:

- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy;
- Codes of Conduct;
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Procurement Codes of Practice;
- Code of Practice for Partnerships;
- Treasury Management Strategy based upon CIPFA's Treasury Management Codes;
- Directorate / department budget management schemes.

There are robust and well embedded risk management processes in place, including:

- Risk Management Strategy and Policy Statement;
- Corporate Risk Profile;
- Risk Management Manual;
- Nominated Head of Risk Management;
- Corporate and Directorate Risk Management Staff and Groups;
- Risk Management Training Programme;
- Discrete Risk Profiles produced for certain major initiatives/projects and significant partnerships;
- Partnerships Risk Register;
- Establishment and operation of a risk management fund;
- Nominated Directorate risk management champions;
- Risk Management Annual Report;
- Member Risk Champion;
- Risk Management Advisors for each Directorate.

There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.

Business Continuity Plans are in place, which are subject to ongoing review and development. The arrangements in place in relation to ICT disaster recovery were satisfactory overall with further enhancement required in relation to some key applications and action is being taken to address this.

There are clearly defined capital expenditure guidelines in place and appropriate project management disciplines are utilised.

The Council participates in the National Fraud Initiative and subsequent investigations.

The Council has adopted and implemented the requirements of the Department for Work and Pensions Security Manual for the administration of Council Tax and Housing Benefit.

Procedures are also in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

There is a system of scrutiny which allows the Review committees to:

- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
- make reports and/or recommendations to the full Council and /or the executive and/or any joint or area committee in connection with the discharge of any functions;
- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or committees.

The Council has suitable arrangements in place to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All reports are considered for legal issues before submission to members. The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities.

The Council maintains an internal audit service. An independent annual review of its effectiveness is undertaken which concluded that it operated in accordance with professional standards.

The Council has well publicised arrangements for whistle-blowing and for receiving and investigating complaints from the public.

The Council is committed to maintaining effective arrangements to ensure that, where an individual, whether an employee of the Council, a Councillor, or any member of the public, has serious concerns regarding the conduct of any aspect of the Council's business, they can do so through a variety of avenues, promptly and in a straight forward way.

The framework in place ensures that the aims of this Policy are met and are set out in two 'Whistle Blowing Policy Arrangements' documents, one for Council workers and one for members of the public.

Monitoring records are held by the Head of Law and Governance which shows that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by feedback from Councillors and the work of all senior managers within the authority who have responsibility for the development and maintenance of the governance environment, Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

The role of the Council:

- Councillors have participated in the annual review of the Council's Corporate Governance arrangements;
- The Leader of the Council, the Chief Executive and the Executive Director of Commercial and Corporate Services have overseen the review and signed the Annual Governance Statement.

The role of the executive:

- The findings of the Annual Governance Review have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

The role of the Audit and Governance Committee:

- The findings of the Annual Governance Review have been reported to Audit and Governance Committee. Under their Terms of Reference the Audit and Governance Committee have satisfied themselves that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

There is a system of scrutiny within the Council which allows Review Committees to:

- review decisions made or actions taken in connection with the discharge of any of the Council's functions;
- make reports and recommendations to the full Council, the executive, or any joint or area committee in connection with the discharge of any functions;
- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented.

The role of the Council's Standards Committee includes the following:

- promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent governor representatives;

- monitoring the operation of the Members' Code of Conduct;
- monitoring the operation of the Council's Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Council;
- considering reports and complaints relating to the conduct of Members of the Council;
- supporting the Monitoring Officer in her role.

All Heads of Service have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility.

All Chief Officers have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from all Heads of Service.

Internal audit planning processes include consultation with all Chief Officers, reviews of the Corporate Improvement Plan and the Corporate Risk Profile. Audit work is risk based and includes risks in relation to the achievement of service objectives, and Internal Audit Services carries out regular systematic auditing of key financial and non-financial systems. The Audit Commission conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.

Malcolm Page
Executive Director of Commercial and Corporate Services
30th September 2011

