

TYNE AND WEAR ECONOMIC DEVELOPMENT JOINT COMMITTEE
25th June 2009

Item No. 9

Statement Reporting Reviews and Internal Control and Internal Financial Controls for 2008/2009

Report of the Treasurer to the Joint Committee

1. Purpose of the Report

- 1.1 This report provides details of the findings of the annual review of the governance and internal control arrangements in place for the Joint Committee.
- 1.2 The report includes the draft Statement Reporting Reviews and Internal Control and Internal Financial Controls, which has replaced the Annual Governance Statement, for consideration and approval, prior to its incorporation into the Annual Return for 2008/2009.

2. Description of Decision

- 2.1 The Committee is asked to note the findings of the annual review and approve the draft Statement Reporting Reviews and Internal Control and Internal Financial Controls.

3. Review of key internal control systems and evidence

- 3.1 The Committee has an agreed constitution and has adopted the code of governance arrangements utilised by Tyne and Wear Development Company Limited, (which has the same objects and both organisations are managed by the company manager), which is based primarily on Sunderland City Council's arrangements.
- 3.2 The arrangements of the Joint Committee have been agreed by members of the Joint Committee from all of the Tyne and Wear district councils and have been fully observed throughout the year. There have been no constitutional or governance issues to report during the year.
- 3.3 The system of internal control has been reviewed by taking into account the following areas:
 - a) work of the internal auditor;
 - b) the effectiveness of internal audit;
 - c) the risk register has been reviewed (an annual requirement) and
 - d) the view of the external auditor.
- 3.4 These all help to inform the effectiveness of the system of internal control and the governance arrangements in place.
- 3.5 The internal audit service carried out 1 audit during 2008/2009 and the recommendations made have been accepted and implemented by

management. The internal auditors did not report any material weaknesses in the system of internal or financial control.

- 3.6 The effectiveness of the Internal Audit Section of Sunderland City Council (the auditors of the Joint Committee) is the subject of a separate report but the Audit Commission's view is that 'there are robust arrangements in place to comply with the Code' (of Practice on Internal Audit).
- 3.7 The risks of the Joint Committee have been re-assessed and audited (Appendix 1) and all risks identified are assessed as very low risk.
- 3.8 The external auditor provides an opinion on the Annual Report each year and no matters have arisen from their past audit work since the Joint Committee was first established on 1st April 2000.

4. Conclusion

- 4.1 The evidence in the year would support the view that the system of internal control is effective and no matters have arisen to report to the Joint Committee.

5. Statement Reporting Reviews and Internal Control and Internal Financial Controls for 2008/2009

- 5.1 The Statement Reporting Reviews and Internal Control and Internal Financial Controls has been prepared taking into account the above evidence and by also taking into account guidance provided by CIPFA's new framework 'Delivering Good Governance in Local Government' and is attached for approval (Appendix 2).

Risk Assessment Profile for Tyne and Wear Economic Development Joint Committee as at 31 March 2009

Risk Issue	Control(s)	Recommendations	Risk Assessed High/Medium/Low
Joint Committee acts illegally or beyond its scope	Joint Committee Constitution Regular Joint Committee meetings scheduled Legal and financial representation at Joint Committee meetings and appropriate input to reports	None	Low
Objectives of the Joint Committee are not clearly established	Joint Committee Constitution	None	Low
Inability to agree actions at Committee because of the political make up	Joint Committee Constitution	None	Low
Grants / Loans awarded with no established system of control or governance arrangements	Joint Committee Constitution Grants protocol established whereby: The district councils propose grants/loans on a business case basis - this is filtered and scrutinised by the manager of TWEDCO, cleared by the Treasurer and then reported to Committee for approval Regular reporting of Grants and Loans Committed to date to every Committee meeting Only grants and loans approved by Committee are included and monitored. Internal controls exist within Treasurer's and TWEDCO to ensure all payments are made in accordance with the schedule and those approved by committee. Grant payments / loans checked to approvals before payment. TWEDCO manager also has to approve the release of funds when criteria for grants / loans have been met. System of internal control and check is in place.	None	Low

Risk Issue	Control/(s)	Recommendations	Risk Assessed High/Medium/Low
<p>Joint Committee has sufficient funds to carry out its objectives</p>	<p>Joint Committee Constitution</p> <p>Regular reporting of the financial position to the Joint committee</p> <p>Annual Statement of Accounts produced in line with professional and legal requirements</p> <p>Internal control of finances:</p> <ul style="list-style-type: none"> * Monthly bank reconciliations * Monthly review of the financial position * Investment of balances * Financial records updated immediately and separation of duties facilitating good internal check arrangements <p>Loans treated as grants until repayments have been secured because of the high risk nature of the targetted grants - reported to Committee</p>	<p>Review and extend the life of the Joint Committee as appropriate every five years - Joint Committee agreed to extend for a further 5 years at its last meeting held in March 2009</p>	<p>Low</p>
<p>Performance of grants / loans awarded</p>	<p>Grant / loan payments are regularly reported to the Joint Committee</p> <p>To consider establishing a performance register</p>	<p>Action point : Joint Committee should consider receiving reports showing the outcomes of the grant / loans made - reports to Joint Committee to commence in 2009/2010.</p>	<p>Low</p>

Statement Reporting Reviews and Internal Control and Internal Financial Controls

1. *This statement is given in respect of the Statement of Accounts 2008/2009 for the Tyne and Wear Economic Development Joint Committee. We acknowledge our responsibilities for ensuring that there are effective corporate governance arrangements in place and that there is an effective system of internal control which is maintained and operated in connection with the resources concerned.*
2. *The system of internal control can provide only reasonable and 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.*
3. *The system of internal control is based on a framework of regular management information, financial procedure rules, procedure manuals covering financial and administrative matters (including segregation of duties), management supervision, a system of delegation and accountability and an annually reviewed Risk Assessment. The system includes:*
 - *A clear delegation scheme;*
 - *Comprehensive budgeting systems;*
 - *A robust system of budgetary control including formal reports at every meeting of the Joint Committee and an annual financial report which indicates financial performance against the budgets and commitments;*
 - *The preparation of regular financial reports for the Joint Committee which indicate actual expenditure against commitments and forecasts;*
 - *Clearly defined grant expenditure guidelines;*
 - *Use of appropriate project management disciplines;*
 - *An annually reviewed Risk Assessment.*
4. *In order to ensure an independent review of the adequacy, or otherwise, of the systems of internal control, Sunderland City Council maintains an adequate and effective internal audit which, provides internal audit services to the Joint Committee. The Internal Audit Division has been certified as meeting ISO 9002 standards and fully complies with relevant professional standards.*

The work of Internal Audit is based upon its three year Strategic Audit Plan which covers all areas of activity and the associated risks and is updated to reflect new initiatives, risk areas and legislation. The annual audit plan is drawn up from the Strategic Audit Plan and resources are allocated to reflect the level of assessed risk of each area.

The Head of Internal Audit reports the findings of audits to the Manager of the Joint Committee and if appropriate to the Treasurer, and action is agreed to address these findings as necessary.

5. *The review of the effectiveness of the system of internal control is informed by:*
 - *The work of the Manager and the Joint Committee;*
 - *The annual risk assessment as reported;*
 - *The work of the Internal Audit Division as described above; and*
 - *The external auditors in their annual audit letter and other reports*
6. *Whilst the Internal Audit Section has concluded that, work performed in relation to the Joint Committee has not raised any issues of concern in relation to either internal control or financial control, the internal control system can always be improved. We will ensure that any recommendations for improvement arising from findings from internal audit reports to the control system are implemented.*

K. Beardmore CPFA
Treasurer

P. Buie
Manager

D. Smith
Secretary

P. Watson
Chairman

Dated: 25th June 2009