

**Norfolk Audit Services Report on the Norwich Joint Highways
Committee's
Statement on Internal Control, 2006-7**

Report by the Director of Finance

This report provides the basis of the annual review of internal controls required by the Accounts and Audit Regulations 2003 (as amended). The paper explains the approach taken to prepare the evidence to support the 2006-7 Statement on Internal Control for inclusion in the Statement of Accounts 2006-7. The proposed statement is attached to this report.

1 Introduction

- 1.1. It has been established that as a Joint Committee the Norwich Joint Highways Agency Committee is required to produce annually its own Statement of Accounts. The Accounts and Audit Regulations 2003, as amended by the 2006 Regulations, require Councils to report a Statement on Internal Control to be included with the annual Statement of Accounts.
- 1.2. During 2004-5, CIPFA issued guidance on evidence that should support a Statement on Internal Control. This guidance has been followed and a portfolio of the significant evidence has been compiled.
- 1.3. It is a requirement that the Norwich Joint Highways Agency Committee reviews the internal controls at least once a year. This report includes the findings of the reviews of the system of internal control to be considered by the Committee. This report also explains the review of the evidence, provides assurance on the controls in place and highlights any action that needs to be taken.
- 1.4. The Norwich Joint Highways Agency Committee operates to an agreement between Norfolk County Council and Norwich City Council. The day to day management is performed by Norwich City Council. As such many of the internal controls are those of Norwich City Council.
- 1.5. The proposed Statement on Internal Control for 2006-07 is attached as Appendix A.

2. The Annual Review

- 2.1. The Statement on Internal control documents the key reviews that take place during the year.
- 2.2. CIPFA have provided a recommended list of evidence to support the Statement on Internal Control covering the key control objectives.
- 2.3. A file of significant evidence including assurances from the City's Section 151 Officer has now been compiled into a reference file that is available to support the statement and is consequently also available to the external auditor.
- 2.4. The contributions to the reference file of evidence have been reviewed by Norfolk Audit Services to ensure that they are complete and accurate and that the controls are current.
- 2.5. The City's Section 151 Officer has given assurances that there were no significant control issues regarding the City's 2006-07 Statement on Internal Control relevant to the Joint Committee and the Joint Committee's Annual report was also available to inform this report.

3. Assurance on the Internal Controls

- 3.1. Where controls are those of Norfolk County Council, as Norfolk County Council has its own assurance process for assessment of its internal controls then the Norwich Joint Highways Agency Committee can place reliance on those Norfolk County Council controls. Where the controls are the responsibility of Norwich City Council, then evidence was provided.
- 3.2. The key areas where additional controls are over and above those provided through the Norfolk County Council systems include areas which are specific to the Norwich Joint Highways Agency Committee. These include:
 - Performance Management,
 - Risk Management and
 - Service Planning
 - Reports of Internal Audit work
 - Financial Management.
- 3.3. The review of the evidence supporting the Statement on Internal Control has confirmed that based upon the assurances from the City's Section 151 Officer and that actions have been agreed for the exceptions detailed in the Statement on Internal Control and the attached action plan, the controls are adequate and effective.
- 3.4. Where the information was not considered adequate or effective an action plan has been agreed and is attached as Appendix B.

3.5. The Chairman and Vice-Chairman of the Norwich Joint Highways Agency Committee and Chief Officer can be reassured in signing the Statement on Internal Control for 2006-07.

3.6. Should any significant changes occur before the statement is signed a report will be presented to the Chairman.

4. Ongoing Maintenance of Internal Controls

4.1. The ongoing maintenance of internal controls rests with the Norwich Highways Agency Joint Committee, and Norfolk County and Norwich City Councils. The Chairman and the Chief Officers monitor their controls throughout each year and ensure that policies, procedures and documents are kept up to date.

5. Conclusion

5.1. The Norwich Joint Highways Agency Committee should note that:

- many of the internal controls are Norwich City Council Controls,
- separate assurance from the City's Section 151 Officer has been received with respect to the Norwich City Council Controls,
- the Norwich Joint Highways Agency Committee can place reliance on the Norfolk County Council Controls,
- there are improvements that can be made to the controls unique to the Norwich Joint Highways Agency Committee,
- an action plan has been developed to implement the improvements and
- the committee can review and approve the Statement on Internal Control as part of the Annual Statement of Accounts.

6. Recommendation

6.1. The Norwich Joint Highways Agency Sub-Committee are recommended to consider this report, the action plan and the draft Statement on Internal Control and that the final statement should be signed and included in the annual Statement of Accounts 2006-07.

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NORWICH JOINT HIGHWAYS AGENCY COMMITTEE

STATEMENT ON INTERNAL CONTROL 2006-07

1 SCOPE OF RESPONSIBILITY

- 1.1 The Norwich Joint Highways Agency Committee (Joint Committee) is responsible for ensuring that its business is conducted in accordance with the law, appropriate standards, in accordance with corporate objectives and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 The Joint Committee 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.
- 1.3 In discharging this overall responsibility, the Joint Committee is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Joint Committee's functions and which includes arrangements for the management of risk.

2 THE 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.
- 2.2 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Joint Committee's policies, aims and objectives, evaluate the likelihood of those risks being realised and the impact should they be realised, and manage them efficiently, effectively and economically.
- 2.3 The system of internal control has been in place at the Joint Committee for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

3 THE INTERNAL CONTROL ENVIRONMENT

- 3.1 General
 - 3.1.1 The key elements of the Joint Committee's internal control environment are listed in the following paragraphs.
 - 3.1.2 The City Council and County Council have similar constitutions.

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- 3.1.3 The City Council has since 1 April 1974, acted as agent of the County Council for various highways and traffic functions. Norwich Joint Highways Agency Agreement was established under the Local Government Act 1972, the Local Government Act 2000, and the Highways Act 1980. The current Agency Agreement is dated 4th July 2006. This is confirmed within "Joint Arrangements", Article 11 to the Norwich City Council constitution with a similar reference in the County's constitution.
- 3.1.4 The Joint Committee consists of two Norfolk County and two Norwich City Councillors. It is advised and supported by three Norfolk County and three Norwich City Advisory Councillors.
- 3.1.5 Norwich City Council is the lead authority, and the Joint Committee's activities are undertaken through the offices of the City Council. Norwich City Council's Statement on Internal Control is in its Statement of Accounts publication. The draft programme of works is drawn up by Norwich City Council, and has to be approved by Norfolk County. A "Description of Joint Arrangements" is given in Appendix 18 of the Norwich City Council constitution, with a similar reference in the County's constitution.
- 3.1.6 The Joint Committee's Terms of Reference and specification of Functions are also contained within Appendix 18 of the Norwich City Council constitution.
- 3.1.7 The staff employed by the City Council would be transferred to Norfolk County Council if the agreement were to be dissolved. Property would also be transferred to Norfolk County Council in the event of termination.
- 3.2 Objectives Establishment and Achievement Monitoring
- 3.2.1 The overall responsibilities of the Norwich Joint Highways Agency Committee are:
- to oversee the operation of the highways and traffic functions delegated to Norwich City Council by the County Council
 - to exercise certain functions delegated by the County Council direct to the Joint Committee
 - to advise the County Council on various highways and traffic matters in Norwich.
- 3.2.2 The Joint Committee meets at least six times a year
- 3.2.3 It receives reports from officers of the County and City Councils regarding their respective areas.

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3.3 Policies, Procedures and Prescriptions Compliance

- 3.3.1 Norwich City Council and Norfolk County Council each have a designated Monitoring Officer, both of whom have Monitoring Officer responsibilities relating to the Joint Committee. The Monitoring Officers of Constituent authorities have Monitoring Officer responsibilities for the Joint Committee.
- 3.3.2 It is the function of a Monitoring officer to ensure compliance with established policies, procedures, laws and regulations. If a Monitoring Officer considers that any proposal, decision or omission would give rise to unlawfulness or mal-administration, after consulting with the Council's Head of Paid Service and Chief Finance Officer, a report will be made to each member of the Council. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. The role of the monitoring Officer is set out within "Employees", Appendix 12 of the Norwich City Council constitution.

3.4 Policy and Decision-Making Facilitation

- 3.4.1 Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities. In other words it is the way in which organisations manage the business, determine strategy and objectives and go about achieving these objectives. The fundamental principles are openness, integrity and accountability, together with the overarching concept of leadership.
- 3.4.2 In recognition of the need for sound corporate governance arrangements, Norfolk County Council and Norwich City council have over the years put in place policies, systems and procedures designed to achieve this.
- 3.4.3 Norwich City Council also has a Code of Corporate Governance in place. The Joint Committee operates under this Code. Procedures are thus in place, which are followed to ensure that activity operation and decision-making are efficient, transparent and accountable to local people.
- 3.4.4 The Conduct and proceedings of meetings of the Joint Committee are governed by the rules relating to meetings of Norwich City Council Committees, as per "Council and Committee Procedure Rules", Appendix 1 of the Norwich City Council constitution.
- 3.4.5 The rights of the public to attend meetings of the Joint Committee and raise questions are set as for Norwich City Council meetings, as per Appendix 1.
- 3.4.6 Norfolk County Council produces an Annual Business Plan, which aims to give an overview of the way it is improving its services for local people. It fits into the County Council Plan, and is informed by individual Service Plans. Norwich City Council also produces an Annual Business Plan.

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3.4.7 The Joint Committee operates within the Terms of the Agency Agreement, and a plan of activities for the year.

3.5 Use of Resources and Securing Continuous Improvement.

3.5.1 Norfolk County Council sets most of the budgets for the service. Norwich City Council sets a relatively minor part of the service budget.

3.5.2 The Joint Committee receives budget-monitoring reports, covering highway maintenance and certain other agency functions.

3.5.3 The Committee works within the City Council's system of financial management, outlined within Article 14 "Finance, Contracts And Legal Matters", and expanded on within Appendix 10 "Financial Regulations and Procedures" and Appendix 11 "Standing Orders Relating to Contracts".

3.5.4 Trained and experienced people deliver the services. All posts have a detailed job description and person specification. Training needs are addressed through personal development plans. The structure and general definitions of management roles are given in "Employees", Article 12 to the Norwich City Council constitution.

3.5.5 The Committee constantly seeks ways to ensure the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. It does this through Internal Audit, and Best Value and Fundamental reviews, and by employing a Value for Money approach.

3.6 Financial Management and its Reporting

3.6.1 The County Council's designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972, acts as Chief Finance Officer for the Joint Committee. However the Chief Financial Officer of each constituent authority also has reporting responsibilities.

3.6.2 Internal audit work is provided by the City Council's internal audit service, which operates with regard to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'.

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3.7 Risk Management

3.7.1 Risk Management is being developed in the activities of Norfolk City Council; the Joint Committee's services are included in that process.

3.8 Performance Monitoring

3.8.1 The Joint Committee receives reports and monitors performance as per 3.2.3 above.

4 REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL

4.1 The Joint Committee has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control.

4.2 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 the development and maintenance of the internal control environment, and also

comments made by:

- the external auditors in their annual audit letter and other reports.
- other review agencies.

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4.3 Scrutiny

4.3.1 In practice reports will be brought to the Joint Committee or the City or County may review the Joint Committee arrangements, all or in part. The means of review may be through the County Council's Cabinet, Cabinet Scrutiny or Audit Committee or the City Council's Executive or Scrutiny committee.

4.3.2 The role and responsibilities of the Scrutiny Committee are given in "Overview and Scrutiny Committees", Article 6 of the Norwich City Council constitution.

4.4 The County and City Council's Codes of Corporate Governance are reviewed annually to reflect further corporate governance elements put in place over the previous 12 months.

4.5 Standards Committee

4.5.1 In accordance with the provisions of Part III of the Local Government Act 2000 the Councils have established Standards Committees to support the proper conduct of the Councils' businesses by Members. The Joint Committee follows each of the appointing bodies rules regarding members standards of behaviour.

4.6 Audit Committee

4.6.1 The role of the Audit Committee at the City was fulfilled by the Scrutiny Committee during 2006-07, which provided proactive and effective leadership on audit and governance issues and champions both audit and the embedding of risk management throughout the council. From 2007-08 an Audit Committee has been formed at the City Council.

4.6.2 The City Scrutiny Committee

- reviews internal audit's strategy, plan and performance,
- reviews the committee's own terms of reference to ensure they are current,
- reviews the financial statements, external auditor's opinion and reports to members, including ISA 260 and report required actions to Council,
- receives risk management reports at least quarterly to take appropriate action to ensure that corporate business risks are being actively managed, including reporting to full council at least annually,
- considers the reports of external audit and inspection agencies,
- considers the effectiveness of the Council's risk management arrangements, the control environment and associated anti fraud and

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anti corruption arrangements, and receive assurances that action is being taken on risk related issues identified by auditors and inspectors.

- monitor management action in response to the issues raised by external audit.

4.6.3 The City Scrutiny Committee are also

- satisfied that the Councils' assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.

4.7 The City's Internal Audit Section is subject to regular inspection by the Councils' external auditors.

4.8 Internal Audit's Annual Audit planning risk assessment includes Services covered by the Joint Committee, and includes audits of Highways functions.

4.9 An Annual Report is presented to the Joint Committee covering the performance under the Agency Agreement

4.10 The Committee relies on the City Council's systems of internal control. The Annual Audit of Inspection Letter March 2007 covering the period 2005-06 noted that the Council's internal control framework needs strengthening and further work is necessary to develop risk management. The City's Section 151 Officer has confirmed that there were no significant control issues regarding the City's 2006-07 Statement on Internal Control relevant to the Joint Committee.

5 SIGNIFICANT INTERNAL CONTROL ISSUES

5.1 There are four significant control issues identified at present, which appear below in Table 1.

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Table 1: Significant Control Issues 2006-7

	Issue	Action
1	The latest estimates for On Street Income, including permits and parking fines income for 2006-7 is £105,000 compared to the estimate of £400,000.	Norfolk Audit Services has been requested to review the 2006-07 Decriminalised Parking Scheme accounts.
2	During the compilation of the 2006-07 accounts it was noted that there is scope to strengthen financial management for the Joint Committee.	A Financial Management Improvement Plan will be agreed and actioned during 2007-08.
3	Risk Management reporting to the Joint Committee needs to be strengthened.	The risk register will be reported to the Committee periodically.
4	The results of audits that are relevant to the systems and controls of the Joint Committee have not been reported in summary to the Committee.	Periodic summary reports to the Joint Committee for relevant audit work, including key findings and agreed action plans.

Chairman

Vice Chairman

Chief Officer

Norwich Joint Highways Agency Committee

Statement on Internal control 2006-07

Action Plan to Improve Internal Control

Internal Control	Improvements Required	How Improvements will be actioned	By whom improvements will be actioned	When Improvements will be actioned
Performance management	Consideration to extending the range and scope of performance measures reported to the Committee	Through revisions to the quarterly reports presented to the Joint Committee	Joint Committee	2007-08
Risk Management	Periodic reporting to the Committee of the Risk Register for review	The Risk Register will be presented to the Committee initially in April 2007 and at six monthly intervals thereafter	Joint Committee	2007-08
Annual Plan	Review of the Annual Plan by the Committee	The Annual Plan 2007-08 will be presented to a meeting of the Committee.	Joint Committee	April 2007; any changes resulting from the review will be incorporated into the Plan and reported up through the corporate hierarchy

Internal Control	Improvements Required	How Improvements will be actioned	By whom improvements will be actioned	When Improvements will be actioned
Financial Management	Strengthening Financial Management for the Joint Highways Agency Agreement.	A Financial Management Improvement Plan will be agreed and reported to the Committee.	Joint Committee	2007-08
Audit Reports	The results of audits relevant to the systems and controls of the Joint Committee need to be reported to the Joint Committee in summary including key findings and agreed action plans.	Periodic Summary reports to the Joint Committee for relevant audit work.	Joint Committee	2007-08

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