

STATEMENT OF INTERNAL CONTROL

The Purpose of the System of Internal Control

1. An internal control system comprises the policies, processes, tasks, behaviours and other aspects of the Board that taken together:
 - facilitate its effective and efficient operation by enabling it to respond appropriately to significant risks to achieving its corporate objectives;
 - help to ensure the quality of internal and external reporting; and
 - help to ensure compliance with laws, regulations and internal policies with respect to the conduct of its business.
2. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is a process designed to identify and prioritise the risks to the achievement of the Board'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.
3. The Board was formally established on December 14th and became Operational on Feb 1st 2005. At its first meeting on 18th January 2005, the Board approved a constitution, procedure rules, financial regulations, codes of practice and protocols and a members' allowance scheme. At the same time the Board decided to continue to operate most of its financial systems in house, but to secure internal audit and the services of a Section 151 Officer from Hertfordshire County Council under a Service Level Agreement. With effect from 1st April 2007 a Section 151 Officer has been engaged as part of the financial services contract. Internal audit services remain with Hertfordshire County Council.
4. The system of internal control was in operation for the period 1st April 2006 to 31st March 2007 and up to the date of the annual report and accounts and accords with proper practice. The system of internal control will continue to develop and improve as the Board develops its own ways of working.

The Internal Control Environment

Establishing and monitoring the achievement of the Board's objectives

5. The internal control environment supports the Board in establishing, implementing and monitoring its policies and objectives.
6. The Board's purposes are set out in the Countryside and Rights of Way (CROW) Act 2000 and its key objectives are set out in the statutory AONB Management Plan. This was prepared by the Shadow Conservation Board on behalf of, and adopted by, the fifteen local authorities following wide consultation with community groups and stakeholders. It was adopted by the

Board on 13th June 2005 in accordance with the CROW Act 2000. The Management Plan gives rise to the actions set out in the Board's Annual Business Plan which is the basis for the Board's funding.

7. A review of the Management Plan will lead to the adoption of a new plan by 2008. The Business Plan is reviewed half yearly by the Executive Committee and the Board. It is the focus of the officer team's work as they implement its actions and activities.
8. Two types of indicators inform whether the objectives have been achieved:
 - Management Plan targets which indicate the success or otherwise of activities directly related to achieving Management Plan objectives.
 - Business Plan actions which indicate success or otherwise against activities set annually in the Business Plan.
9. The Board publishes an Annual Review to summarise and report on its performance to partners, funders and other interested parties. The Board also holds an Annual Forum at which its activities are presented for discussion and feedback is used to determine future priorities and actions.

Policy and decision making

10. All policy is made by the Board. Policy is developed by members and officers working in the Executive Committee, Planning Committee and other sub committees and working groups. Further detailed policy development is undertaken by officers reporting to members. Recommendations on policy are made by the Executive Committee and Planning Committee to the full Board.
11. The Board and its Committees have access to professional services from within and outside the staffing structure to provide specialist policy and legislative advice in key areas. To facilitate this arrangement both the Executive and Planning Committee can co-opt four members each, in a non voting capacity, to provide independent expert advice. Working groups are established by the Board and its Committees to enable the Board to draw on a wider range of expertise from partner organisations and other outside experts. The Annual Forum also provides a means by which further guidance is secured to assist policy development. Wider consultation is carried out during the development of the Management Plan.
12. The Board, Executive and Planning Committee meet quarterly. Meetings of the Executive and Planning Committees are timed to feed into the meetings of the full Board.
13. The Chief Officer has delegated authority to take decisions, as set out in the Board's Constitution. He also has authority to delegate decisions to other officers.

Ensuring compliance

14. Responsibility for compliance with policy rests with the Board, advised by its Executive and Planning Committees.
15. The Board has taken the strategic decision that high level legal and financial advice is independent of the Board's executive. The role of Finance Officer and Legal/Monitoring Officer were externally provided by Herts CC and Bucks CC respectively, and report directly to the Board. They are responsible for ensuring the Board's policies and activities comply with current legislation and regulations. They will also advise on forthcoming changes to regulation and legislation that the Board will be required to comply with. With effect from April 2007 a separate Section 151 Officer has been engaged.
16. The Board did not have a separate Standards Committee in place, but had taken the decision to refer any case to a committee which would be comprised of Board members and independent members drawn from Bucks CC Standards Committee panel.
17. In addition to the appointment of a 'Section 151 Officer', the services of a CIPFA (Chartered Institute of Public Finance and Accountancy) accountant are engaged to assist with in house financial management. Herts CC internal auditors also provided initial advice and carried out preliminary checks on the systems.
18. Finance reports are provided to each, quarterly, meeting of the Executive Committee. Where necessary, financial matters were also presented to the full Board.
19. The Board is required to report quarterly to Natural England (which provides up to 80% of the Board's core budget) which operates its own scrutiny arrangements over the Board's activities and financial performance.

Identifying, assessing and monitoring risks

20. The Board adopted a Service Assurance Scheme incorporating a risk assessment, but does not yet have a fully developed risk management process in place. This was prepared under the guidance of Hertfordshire CC Internal Audit Section. It has identified key corporate risks and is in the process of identifying and implementing controls to guard against these risks. The main key risks to the Board are:

Operation of the Conservation Board: as a new organisation, there is a risk that the Board will be slow to become fully effective. The Board is supported by a small officer team and there may be a lack of capacity to carry out tasks, leading to the Business Plan not being implemented.

Funding: As the Countryside Agency and English Nature merge into one organisation, Natural England, its objectives and priorities will change. There is a risk that there will be a period of uncertainty and that AONB issues will

become low priority. This could affect funding from Government and long term planning. Any lessening of commitment from local authorities, which provide funding on a discretionary basis, would similarly affect the Board.

Partner organisations: With the shadow Board having been replaced by the Conservation Board, there is a risk that partner organisations will become less involved with implementing AONB actions as identified in the AONB Management Plan.

Cash flow: The Board needs to be careful to manage its cashflow. This is eased by the current agreement with Natural England to provide advance quarterly payment of grant for core costs. The Board would struggle to manage its cash flow if this payment were made in arrears.

Reserve Fund: The Board currently has, what it believes, is an adequate reserve fund. It is essential this is maintained at a minimum level, currently in excess of four months of operating costs.

Financial management: financial mis-management, inappropriate use of funds, theft and fraud could result in serious risks to the operation of the Board.

Work Programme: If the work programme is not adequately managed there is a high risk that actions will not be implemented and the associated budgets controlled adequately. The main risks are associated with new projects, especially where external partners are involved. Staff prepare project plans and, where required, steering groups are put in place to monitor budgets and activities.

Legislative and Regulatory Framework: Uncertainty about the legislative and regulatory framework that applies to the Board could lead to the Board failing to comply, causing disruption to the Board's activities.

Loss of Key Personnel

As a small organisation the Board is particularly dependent upon a small number of staff. Loss of these staff could disrupt the management of the Board and implementation of the work programme. These risks are difficult to cover.

Ensuring economical, effective and efficient use of resources

21. The Board's use of resources is controlled through the Business Plan, approval of which sets the budget for the Board. The process for setting the budget involves consultation with, and requires the approval of, the Board's principal funders, in particular Natural England.
22. The Board is committed to achieving best value through its approach to procurement. It has clear tendering arrangements. It has also decided to

secure support for its financial, personnel, legal, administrative and IT needs from external suppliers as the most cost effective arrangement.

23. The Board achieves many of its objectives by working with others in the private, public and voluntary sectors. The Board continually seeks new funding sources and to apply its resources in the most effective way by working closely with the community and other partners better placed to take a lead.
24. The Board's members and officers continuously research best practice and latest innovation, which may be applicable to the Board.

Financial management

25. During 2006-07 responsibility for the budget, at officer level, was partly delegated to named budget holders. Similarly specific projects have their own budgets and responsible officer, supported in some cases by steering groups responsible for monitoring work programmes and budgets.
26. Officers attend regular team meetings with the Chief Officer at which financial management issues are discussed. A monthly officer level finance meeting is held to monitor the budget and other financial issues.
27. A modern easy to use financial management system (SAGE) is in place, and is accessible to all officers.
28. Financial reports are presented to each Executive Committee and key funding partners. High level financial issues, such as setting the annual budget and approval of the Business Plan are raised with the Board
29. The District Auditor appointed the Audit Commission to undertake the external audit. Internal audit control and advice is provided by Herts CC.

Performance management

30. Performance management is undertaken in the following ways:
 - The Board has an annual Business Plan incorporating targets and outputs together with a Work Programme identifying specific actions, outputs, milestones and resource need. Achievement of the outputs in the work programme give a check of how the Board has been able to contribute to the implementation of the AONB Management Plan.
 - Half yearly and full year reports on, and reviews of, the Work Programme and other Business Plan targets are presented to the Board and Executive Committee.
 - A staff meeting is held monthly to discuss, review and plan a full range of actions.

- Feedback is provided to partners funding partners as required.
- Regular reports are provided to the Natural England and other major funding partners.
- The Board will publish an annual review of its activities, which will be presented to the Chilterns Annual Forum for discussion. Feedback is received on performance and future direction. This arrangement has been in place for several years under the shadow Conservation Board and it is planned to continue with it. Typically the Annual Forum is attended by over 100 delegates representing over 40 organisations.
- The Board operates a staff appraisal system, which identifies strengths and weaknesses, development needs and longer term career goals. This is supported by a personal annual work programme with actions, targets, performance measures and timetables. This is reviewed every six months, or more frequently if required.

Review of Effectiveness

31. The external auditor provides a management letter to the Board annually and this will be made available on the Board's public website. Recommendations within the letter will be given to the Chief Officer to produce an action plan to address areas of weakness. The action plan will be scrutinised by the Board and its Executive Committee to ensure that any major risk areas are addressed. Executive action will be taken by the Chief Officer and any corporate issues raised will be discussed and action-planned by the officer team.
32. In addition, the Executive Committee will receive an annual report from the internal auditor describing the results of their annual work programme. The work of the internal auditor will be determined in consultation with the external auditor.
33. The Executive Committee will examine the effectiveness of the system of internal control on an annual basis.

Significant Internal Control Issues

34. The Board has identified the following key control issues that need to be addressed in 2007/08:
 - The development of the Risk Management process
 - Further identification of the resource implications (finance, staff, Board member involvement) for internal control and reporting.
 - Further development of staff awareness of financial and other internal control systems.

- Improvements to cash flow forecasting with a view to maximising returns on investments.
- Development of robust project management procedures.

Signed:
Chief Officer

Date:19/6/2007

Signed:
Chairman

Date:19/6/2007