

Dear Director

The purpose of this correspondence is to set out the background and process for collating information to support the Chief Executive's Statement on Internal Control (SIC). The SIC is the means by which the Accounting Officer declares his approach to, and responsibility for, risk management, internal control and corporate governance. It is also the vehicle for highlighting weaknesses which exist in the internal control system within the organisation. It forms part of the Annual Report and Accounts.

The SIC is the main forum for bringing key assurance/ stewardship activities to a concluding opinion and the standard way of bringing risk management within an organised structure for reporting and also for internal use. It should support the organisation's policies, aims and objectives whilst safeguarding its assets.

As an STFC Director and in accordance with the Scheme of Delegation you will be required to provide your annual stewardship statement in March as part of the evidence base for the SIC.

Background

In the current climate of fiscal restraint and declining availability of resources, it is important that public sector bodies can demonstrate the resources that they are responsible for are appropriately managed and controlled. The SIC is a public accountability document that describes the effectiveness of internal controls in an organisation. The SIC is a mandatory disclosure for STFC and must comply with the Financial Reporting Manual (FRoM).

As part of their audit approach, the NAO engages with senior executives early on in the reporting period and subsequently challenges the disclosures made in the SIC if these do not provide transparent information to Parliament, or the underlying processes are inadequate.

The SIC is supported by two types of assurances: 1. management; and 2. independent assurance. There are important differences between the two.

- **Management assurance:** Management should put in place the framework to ensure they have the necessary evidence to satisfy themselves as to the efficiency and effectiveness of the internal control framework and to provide the required level of assurance to the Council and Executive Board via the Audit Committee. This includes specific assurance statements from each senior director ("Stewardship Returns"), management commissioned internal reviews and ongoing internal reporting/oversight activities through the management/ committee structure (e.g. SHE reviews; RAG reviews; project Traffic Light Reports). This document deals with this internal management assurance. The assurance should be auditable and is scheduled for review by Internal Audit in the 2010-11 audit programme.
- **Independent Assurance:** Independent assurance validates management assurance and this is primarily provided by the Research Councils' Internal Audit Service (RCIAS), with further material assurance taken from the work of the National Audit Office (NAO).

Approach & timetable

All senior directors (Executive Board and Operations Board) are required to provide a 'Stewardship Return' (see Appendix A) assessing internal control and risk

management activities in their sphere of responsibility. This end of year exercise will be facilitated by a risk review conducted through the Risk Assurance Group (RAG) and a 'Stewardship Review' at Operations Board. After the Operations Board session (scheduled 19th March 2010) each Director will be required to provide a declaration (see Appendix A) on the quality of control paying due consideration to:

- Corporate and operational internal control: The quality of control at a corporate level in the context of their corporate responsibilities and the quality of corporate controls impacting on their operational responsibilities; and the quality of controls they have established to complement /supplement the established corporate controls.
- Corporate and operational risk management: The quality of risk management at a corporate and operational level and any key risks/ issues emanating from this process.
- The assessments, progress and improvements relating to assessments by third parties.

Prior to the RAG meeting and Operations Board session, each Director should cascade these principles and conduct a departmental review covering the 3 bullets indicated above.

NB A separate exercise will be run in parallel with a wider constituency seeking declarations on a range of Governance matters (Action see 5 below).

The timetable of actions is:

	Action	Timing	Who	Outcome
1.	Governance Team Rollout Corp Risk register on Sharepoint (1-2-1 with RAG Reps)	February	Gov Team & RAG reps	Trained use of Sharepoint as Corporate Risk Register. Updates through Sharepoint
2.	Directorate/ Departmental Stewardship Review	Before 10 th March	Depts	<ol style="list-style-type: none"> 1. RAG representative update Risk Register & submit to Hd of Governance. (i.e. Corporate & Operational Risk Register). 2. Corporate Risk Owners (Directors) to sign off on Corporate Risk updates (Sharepoint). 3. RAG representative to use output to inform input at RAG 10th March 4. Director to consider impact on 'Stewardship Return' use output to inform input at Ops Board 19th March. (May wish to produce first draft statement).
3.	RAG meeting – review risk mgt framework and Corporate Risk Register	10 th March	RAG	RAG Risk Report to Ops Board
4.	Ops Board – stewardship session	19 th March	Ops Bd	<p>Workshop environment debate of issues</p> <p>Update Aide Memoire (see Appendix B0 to reflect conclusions drawn at meeting.</p> <p>Send updated Aide Memoire to Directors seeking formal declaration as per Appendix A.</p>
5.	Issue request to Band F staff & above for statement on Regularity & Propriety	5 th Feb	Hd of Gov	<p>Seeking declarations on:</p> <ul style="list-style-type: none"> • Related Party Transactions • Conflicts of Interests • Fraud • Gifts & Hospitality • Director & Officer representation on external boards
6.	Information Assurance	TBC	DJ	Need to liaise with David Jackson

	Action	Timing	Who	Outcome
7.	Security Report	TBC	SS	Need to liaise with Sean Stewart
8.	RCIAS Annual Report	TBC	RCIAS	Need to liaise with RCIAS
9.	STFC – RCIAS liaison	TBC	Dir Fin/ Hd of Gov & RCIAS	Need to liaise with RCIAS
10.	Obtain latest version of Traffic Light Report	TBC	SQ	Need to liaise with Steve Quinton
11.	Update Assurance Map & Draft SIC	24 th March	Hd of Gov	Paper to Audit Cttee
12.	Present draft SIC to Audit Cttee	26 th March	Hd of Gov	Review & comment
13.	Deadline for Director Stewardship Returns	31 st March	Directors	Chase outstanding returns
14.	Review Assurances	10 th April	Hd of Gov	Collate returns & review impact on Draft SIC
15.	Final Draft of SIC & Governance Assurance Report	11 th April	Hd of Gov	Liaise with NAO as appropriate
16.	Agree SIC with CEO	15 th April	Hd of Gov & CEO	As per action
17.	Sign off by Audit Cttee	6 th July 2010	Aud Cttee	As per action

STEWARDSHIP STATEMENT FOR THE PERIOD 1st April 2009 to 31st March 2010.

As an STFC Director and in accordance with the authority delegated to me by the STFC Chief Executive, my review of the internal control arrangements in the period 1st April 2009 to 31st March 2010, covering my objectives and responsibilities are reflected in the following statements (delete as appropriate)

Part 1. The Directorate review of control arrangements and ongoing oversight (e.g. Committee meetings/ other groups) and reporting arrangements (e.g. Traffic Light Reports) identified:

- (a) no significant issues with the control framework
- (b) the following significant issues:
 - i.
 - ii.
 - iii.

Part 2. In the Directorate's delivery of objectives and management of risks for which I have responsibility I have identified:

- (a) no significant issues with the control framework or outcomes
- (b) the following significant issues/ outcomes:
 - i.
 - ii.
 - iii.

Part 3. I have examined the Opinions provided by the auditors and other review agencies/ consultants and these identified:

- (a) no significant issues with the control framework
- (b) the following significant issues:
 - i.
 - ii.
 - iii.

I have taken the following action to address the issues identified above and implement recommendations resulting from these reviews:

Signature

Name

Position

Date

The Aide Memoire at Appendix B has been provided to help formulate your assessment, you may wish to complete and attach as supporting evidence for your return.

For Directorate, also read Department as appropriate

STEWARDSHIP FRAMEWORK – Grading Definitions

When completing the Aide Memoire at Appendix B please provide an overall assessment for each activity based on the following definitions.

Assessment – Opinion Categorisation	
Full Assurance	A sound system of internal control likely to achieve the system objectives, and which is operating effectively in practice.
Substantial Assurance	A basically sound system of internal control, but where there are a few weaknesses that may put achievement of some system objectives at risk.
Limited Assurance	A system of internal control that is satisfactory in part, but which contains a number of weaknesses that are likely to undermine the achievement of system objectives and leave it vulnerable to material error/abuse or threatening risk.
No Assurance	An unacceptable system of internal control, containing fundamental weaknesses creating serious doubts over the achievement of system objectives and leaving it vulnerable to significant error/abuse.

AIDE MEMOIRE – provided to support statement (For Directorate, also read Department as appropriate)

Activity	Context/ Key Considerations	Assessment
A. Governance	<p><u>Roles & responsibilities</u> (Executive/ non-executive) – are reporting lines/ scope of activities: clearly defined, appropriate, and effective.</p> <p><u>Policies & procedures</u> – Is there clear direction to staff on the STFC Corporate expectations (standards of performance, procedures, behaviour)? Up-to-date? Comprehensive? Communicated? One version?</p> <p><u>Regularity Compliance</u> – are there a range of applicable regulation and procedures in place to demonstrate compliance.</p> <p><u>Regularity & Propriety</u> – are there procedures for dealing with conflicts of interest, whistleblowing/ fraud, gifts & hospitality, related party transactions. Any evidence of fraud or other inappropriate activity?</p> <p><u>Management Information</u> – have we identified and captured the necessary management information to support decision making and oversee performance?</p> <p><u>Risk Management</u>: – is there a good understanding of STFC’s risk appetite and the risks faced by the organisation? Is there a clear mechanism for escalating risks? What are the key risks currently faced by the organisation?</p> <p><u>Business Continuity</u>: Do you have a BCP? Is it up-to-date? When was it last tested? Is it aligned to a corporate BCP?</p>	
B. Strategic & Operational Planning (inc: Performance Management)	<p><u>Corporate strategies/ objectives</u>: Are Directorate activities aligned/ consistent with Corporate priorities? How is contribution to strategic priorities cascaded and monitored? Any evidence of poor/ good performance against STFC critical activities?</p> <p><u>Business Plans</u>: Do formal business plans exist consistent with the STFC Mission, Vision, Values and priorities? If no how are operational activities aligned to Corporate objectives? How is performance monitored?</p> <p><u>Jobs Plans</u>: is there a clear link between the strategy and individual job plans? Is staff performance monitored?</p> <p><u>Stakeholder Management</u>: Understanding of / engagement with stakeholder community (internal & external), meeting their legitimate needs; communication.</p> <p><u>Performance</u>: in the business arenas that your directorate operates how are we performing against objectives? How is this evidenced (SMART targets, KPIs, cascaded Business Plans/ Scorecards)?</p>	

Activity	Context/ Key Considerations	Assessment
C. Information Technology & Systems	<p>IT controls support business management and governance as well as provide general and technical controls over IT infrastructures. In particular pay due regard to controls that relate to the confidentiality, availability and reliability of information and compliance with regulations (NB FOI & DPA).</p> <p>The following questions can be considered when selecting a suitable set of baseline controls:</p> <ul style="list-style-type: none"> • Do IT policies — including user policies — exist? • Have responsibilities for IT and IS been defined, assigned, and accepted? • Are external and internal vulnerability assessments completed and risks identified and appropriately resolved? • Are IT resources logically and physically secured? Are access and authentication control mechanisms used? Is antivirus software implemented and maintained? • Is firewall technology implemented in accordance with policy • Are change and configuration management and quality assurance processes in place? • Are structured monitoring and service measurement processes in place? 	
D. Communications	<p><u>Communication</u> – Internal/ external, formal approach, 2-way, consistent message/ understanding through management chain, and stakeholder community, aligned to STFC Mission / Strategy/ Priorities inc:</p> <ul style="list-style-type: none"> • Stakeholder Engagement; • Media Relations; • Internal communication; • Web provision; • Events & publications; and • Marketing & branding. 	
E. Advisory Structure	<p>How does the advisory structure impact on your operations? If material please consider:</p> <p><u>Roles & responsibility</u>: terms of reference; skills profile; scope of activities; meeting procedures?</p> <p><u>Accountability</u>: reporting lines; record of meetings/ minutes; regular review of performance (as a group & as individuals). access to the advice and services of a dedicated board secretariat?</p> <p><u>Shared agenda/ vision</u>: how do we balance alignment between priorities of STFC and advisory structure conclusions, induction/ briefing; scope of business.</p> <p><u>Objectivity/Conflicts</u>: Balance of interests, skills and experience. Register of conflicts and conflict management process.</p> <p><u>Appointments</u>: is there a formal, rigorous and transparent procedure for appointing new members</p> <p><u>Communication/Information</u>: completeness, timeliness, relevance and quality of information provided to boards and communication of decisions to those expected to act on conclusions drawn. Compliance with DPA/FOI inc publication of minutes</p>	

Activity	Context/ Key Considerations	Assessment
F. Facility Development & Operations	<p>For in-house operations how well do we exercise the following activities:</p> <ul style="list-style-type: none"> • Business Planning (inc development of facility); • Operational performance and risk management; • Maintenance of Facility infrastructure; • Regulatory compliance (<i>e.g. H&S</i>); • Stakeholder interfaces. <p>For facilities managed by Arms Length Bodies (see also H below) how well do we mitigate against risks and gain assurance in the following activities:</p> <ul style="list-style-type: none"> • Business Planning (inc alignment with STFC aims); • Operational performance and risk management; • Financial management (inc: accounting for resources provided and minimising potential liabilities/ costs to STFC); • Maintenance of infrastructure; • Regulatory compliance (<i>e.g. H&S</i>). 	
G. Programmes & Project Management	<p><u>Programme/ Project Profile:</u> Highlight any Business Critical Projects (i.e. high profile in relation to material contribution to STFC priorities or representing major risks to STFC) – please list? Are they performing to plan (time, quality & cost). Are there any potential issues emanating from the programme that may have a material Corporate impact?</p> <p><u>Finances:</u> Full costs understood and planned for? Funding secured for all costs? Partner commitments (financial/other) firmly in place? Any major over/underspends? Is funding monitored spend v allocation or cost to completion v allocation?</p> <p><u>Investment decisions:</u> Benefits v costs clearly understood? Relative importance v alternative activities understood and taken account of in decision making process? Are material variations to time, quality or cost referred to an appropriate level in the organisation for approval?</p> <p><u>Project Management:</u> Are appropriate project management standards defined, communicated and complied with? Is assurance framework appropriate to risk profiles (e.g. Oversight Committees, Gateway reviews, Internal audit, other)? How do you gain assurance on project management standards?</p> <p><u>Reporting:</u> Are reports on performance routinely received for all material/ major projects? Do reports provide a clear, comprehensive and accurate picture of performance? Any major concerns on major projects relating to project management or progress?</p>	<p>List of projects to consider – as appropriate (not (not exhaustive):</p> <ol style="list-style-type: none"> 1. SSC 2. Blueprint 3. VISTA 4. MIRI 5. LHC, 6. ALMA 7. NuSTAR, 8. ExoMars, 9. the expansions of ISIS 10. Diamond. <p>world-leading science</p>

Activity	Context/ Key Considerations	Assessment
H. Major partnerships and collaborations	<p>Where part of the business of the department is conducted with and through arm's length bodies (ALBs), the department's board should ensure that there are robust governance arrangements with each ALB board, setting out the terms of their relationship.</p> <p>The term "<i>arm's length body</i>" is taken to include any externally governed organisation that STFC has a material interest in through:</p> <ul style="list-style-type: none"> • the scale/ nature of investment; • STFC role as UK lead organisation and associated accountability/ reputational impacts; or • as a critical contribution to UK/ STFC performance. <p>STFC Risk Register</p> <p>Risk reference CR19 in the STFC Corporate Risk Register relates to Arm's Length Bodies (ALBs). The objective at risk relates to our ability to rely on ALB governance arrangements with and within each material ALB to gain assurance on performance, propriety and regularity.</p>	<p>STFC ALBs (not exhaustive)</p> <ol style="list-style-type: none"> 1. The RCUK Shared Services Centre Ltd (the SSC) 2. Diamond Light Source Ltd (DLS) 3. The European Space Agency (ESA) 4. The European Southern Observatory (ESO) 5. CERN 6. The Institut Laue-Langevin Facility (ILL) 7. The European Synchrotron Radiation Facility (ESRF) 8. STFC Innovations Ltd (formally CLIK Knowledge Transfer) 9. The Harwell Science and Innovation Campus (HSIC) 10. The Daresbury Science and Innovation Campus (DSIC) 11. The British National Space Centre (BNSC)
I. Grants & Awards	<p><u>Grants & Awards given:</u></p> <ul style="list-style-type: none"> • Do assessment processes ensure alignment/ consistency with STFC priorities? • Is membership of Boards and Panels built on an objective and consistent basis? Is there a defensible balance on committees/ panels in relation to skills/ experience v organisations represented? • Are Conflicts of interest well managed? • Are risks understood and accepted through the assessment process? • When agreeing size of award is there appropriate consideration of the deliverables appropriate (e.g. reduced funding may impact on scope)? • Any evidence (e.g. from FAP process) that recipients likely to under perform against objectives or acting inappropriately (accountability, scientific practice)? <p><u>Grants Received:</u></p> <ul style="list-style-type: none"> • How have differences between awards and bids been managed (e.g. reduced scope?)? • Do we have procedures in place re Good Scientific Practice or other quality systems? • Are we compliant with these systems – evidence? • Are changes to objectives agreed with funding body? • Do we apply project management standards to the delivery of the grant? • How do we manage against financial targets? 	

Activity	Context/ Key Considerations	Assessment
J. Innovation	<p>Processes designed and implemented to manage arrangements for campuses and economic impact programmes exploiting capabilities in-house, in universities and in funded facilities. How mature is our focus and controls in the following areas (provide examples as appropriate):</p> <ul style="list-style-type: none"> • Strategic Focus; • Operational plans; • Campus Developments (e.g. Business Plan exist; progress v plans? legal compliance); • Technology & Skills Development; • Technology Exploitation; • Commercialisation; and • Exploitation of Large Facilities. 	
K. Financial Control	<p><u>Expenditure</u>: Clear scheme of delegation/ authority? Regularity & propriety of expenditure? Represents value for money? Based on sound investment decision (whole life?)? Charged against right accounts? Valid, Accurate, Complete, Authorised, Timely, Efficient?</p> <p><u>Funding</u>: CSR planning and response; economic climate – impact on resources (short term & horizon scanning); income generation/ exploitation.</p> <p><u>Income</u>: Identified and collected promptly, charged to correct account, reconciled? Proper to STFC business?</p> <p><u>Commercial activities</u> Financial targets consistent with STFC policies (e.g. FEC)? Contracted within defined STFC framework? Any evidence that financial returns are inconsistent with original proposals (e.g. cost increase but no increase in income).</p> <p><u>Financial Mgt/ Budgetary Control</u>: Based on trustworthy analysis? Valid, Accurate, Complete, Authorised, Timely, Efficient. Any issues surrounding financial profiling and performance? Any material over/underspend?</p> <p><u>Bank Accounts</u>: Register of authorised accounts held. Bank mandates (including signatory lists). Reconciled promptly. Control over payable instruments (BACS, CHAPS, FOREX, Cheques).</p> <p><u>Accounting routines</u>: trial balances/ reconciliations (timely, reviewed, complete), timely submission of information, capture of financial information (e.g. invoice logging). Housekeeping routines (e.g. review of outstanding invoices log, aged debtors). Supplier maintenance. Control of journals</p>	

Activity	Context/ Key Considerations	Assessment
L. Human Resources	<p><u>Staff numbers</u>: Any issues surrounding staff retention/ recruitment – any statistics to support concerns? Have critical posts/ single points of failure been identified? Any critical posts remaining unfilled – what is the impact?</p> <p><u>Skills profile</u>: has a skills analysis been carried out? any skills gaps that are having an impact on performance? Is there a structured/ disciplined approach to staff training? Is this applied consistent with training objectives?</p> <p><u>Jobs Plans</u>: is there a clear link between the Strategic plans and individual job plans?</p> <p><u>Employment Law</u>: Are we compliant in all material areas of employment law? Any evidence of non-compliance with employment law (e.g. volume of tribunal cases – lost/won)?</p> <p><u>HR standards</u>: are we perceived as a good employer with robust HR policies and procedures (evidence – reviews e.g. IIP assessment).</p> <p><u>Staff morale & Culture/ Behaviour</u> – is there a shared vision/ agenda, compliance with policies & procedures. Any evidence of inappropriate behaviour or low morale?</p>	
M. Safety, Health & Environment (SHE)	<p><u>Policy and Procedures (Codes)</u>: Are SHE policies and codes understood? Do SHE issues have a good profile in your Directorate and are staff conscientious in the application of SHE codes? Have you developed and cascaded Departmental SHE improvement plans? Do staff have APR SHE objectives?</p> <p><u>Training</u>: Have staff received adequate SHE training where significant SHE hazards/risks have been identified or as detailed in STFC SHE Codes?</p> <p><u>Incidents</u>: Are incidents and near misses routinely recorded, reported and investigated? Are actions arising from investigations completed? Is SHE performance reviewed by management as other responsibilities?</p> <p><u>Communication</u>: Are all relevant SHE notices and information adequately displayed? Are new SHE codes launched effectively? Do SHE committees monitor their implementation?</p> <p><u>Risk assessment</u>: is safety risk assessment embedded within Directorate activities, particularly for major new high risk activities? Are they recorded on the SHE Enterprise database?</p> <p><u>Audit</u>: Has your Directorate been subject to any SHE audits (technical or otherwise) – how did you perform? Any outstanding actions from audits (including prior to this year)? Do you instigate a programme of safety tours? Are their actions completed promptly?</p>	

Activity	Context/ Key Considerations	Assessment
N. Estates & Infrastructure	<p><u>Estates Strategy</u>: existence, monitoring, resourcing, review and update – consistency with Asset Mgt Strategy.</p> <p><u>Capital Planning</u>: Facility infrastructure & development programmes (inc: prioritisation); optimisation of funding sources (e.g. LFCF),</p> <p><u>Operational performance</u>: availability, security and safety;</p> <p><u>Regulatory compliance</u>: (e.g. Environmental Agency; H&S); and</p> <p><u>Maintenance/ upkeep of infrastructure</u>: planned preventative maintenance programme, resourced, consistent with capital/ infrastructure replacement programme.</p>	

Signature Name

Position

Date