

## **Audit and Governance Committee**

31 January 2007

Report of the Assistant Director of Resources (Audit & Risk Management)

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## **2006/07 Statement of Internal Control – Managing the Process**

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### **Summary**

- 1 The purpose of this report is to advise Members of the process which is planned to enable publication of the 2006/07 Statement of Internal Control (SIC).

### **Background**

- 2 The Accounts and Audit Regulations 2003 imposed a legal requirement on all local authorities to publish a SIC as part of their Statutory Accounts.
- 3 The SIC forms an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of its corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC enables the Council to formally report on governance related issues identified during the relevant accounting period. The purpose of the SIC is to demonstrate and/or provide;
  - a) openness and accountability to the public;
  - b) assurance to stakeholders;
  - c) a framework for improving the adequacy and effectiveness of corporate governance arrangements;
  - d) evidence for the Comprehensive Performance assessment (CPA).
- 4 CIPFA has previously issued guidance on the process which needs to be followed to prepare the SIC (including the need to establish, maintain and review the systems of internal control). The guidance also prescribes the form and content of the SIC. The Council's 2005/06 SIC fully complied with the CIPFA guidance and the process which was followed resulted in ten significant control issues being identified. Details of these issues, together with the planned remedial actions were included in the action plan which formed part of the SIC. A copy of the final 2005/06 SIC is attached for information (see annex 1).

## 2005/06 Statement of Internal Control

- 5 There is now a well established process to prepare the SIC. For the 2005/06 SIC the process was coordinated by the Officer Governance Group. Each Directorate completed a self assessment of the key controls within their respective areas. Directors also completed and signed Directorate Assurance Statements, using information obtained from the review of key controls and associated evidence. A similar self assessment of Corporate key controls was undertaken, and the S151 Officer and Monitoring Officer each completed and signed disclosure statements. The review process also took into account the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, which was reported to this Committee on 6 June 2006. Internal Audit also gathered and reviewed other documentary evidence to identify possible control weaknesses (for example, internal and external audit reports and other inspection reports).
- 6 The Officer Governance Group evaluated the control issues identified through the review process and considered which should be disclosed as a significant control weakness. A control weakness was considered to be significant where;
  - a) the issue had seriously prejudiced or prevented achievement of a principal Council aim or objective;
  - b) the issue had resulted in a need to seek additional funding to allow it to be resolved, or had resulted in a significant diversion of resources from another aspect of the Council's services;
  - c) the issue had led to a material impact on the Statement of Accounts;
  - d) the Audit and Governance Committee had advised that it should be considered significant for this purpose;
  - e) the Chief Internal Auditor had reported on it as significant in the annual opinion on the Council's internal control environment;
  - f) the issue, or its impact, had attracted significant public interest or had seriously damaged the Council's reputation;
  - g) the issue had resulted in formal action being taken by the S151 Officer and/or the Monitoring Officer.
- 7 The significant issues control issues identified through the process were discussed with the Leader and a copy of the proposed SIC was considered by Corporate Management Team. The draft SIC was also presented to this Committee prior to it being reported to the Executive for their approval and recommendation to Full Council on 29 June 2006 (as part of the report on the 2005/06 Statement of Accounts). The SIC was signed by the Leader and the Chief Executive.

- 8 The Officer Governance Group also agreed to monitor delivery of the action plan and the progress made by each Directorate to rectify control weaknesses, through periodic focused reviews. The results of these reviews would be reported to this Committee as part of the ongoing monitoring reports from OGG, as scheduled in the forward plan.

## **Action Plan Monitoring**

- 9 Internal Audit is currently undertaking a follow up exercise to identify the progress which has been made in addressing the significant control issues identified in the 2005/06 SIC, together with the control weaknesses in each Directorate. The results of the review will be reported to this Committee at the April meeting.

## **Proposed Changes to the Process**

- 10 The process followed for the preparation of the 2005/06 SIC worked well and was considered to be thorough and fully documented by the Audit Commission. It is therefore proposed to follow a broadly similar process this year, subject to the following limited changes;
  - a) Additional time needs to be allowed to incorporate any changes to the draft SIC which are proposed by Members and Corporate Management Team. The period allowed for consulting on the draft SIC, prior to it being reported to this Committee, has therefore been extended (see draft timetable below).
  - b) In previous years, Members have been consulted on the contents of the draft SIC, and in particular the significant control issues identified through the review process. Although Members have been satisfied with this approach there remains the risk that this consultation is too late in the process and that as a consequence specific issues are not fully and properly considered. It is therefore proposed that Members are invited to contribute to the review process itself by identifying control weaknesses and other governance issues for possible inclusion in the SIC. This consultation is planned to take place during early April with the results being reported to this Committee initially at the April meeting. The Officer Governance Group will then evaluate the results as part of the overall review of the control environment.
  - c) As noted above, this is the first year in which progress in delivering the SIC action plan has been monitored. The monitoring arrangements still need to be fully developed but it is already recognised that they could be improved if the proposed actions in the SIC were more explicit and responsibility for specific control issues was assigned to named officers. It is therefore proposed that ownership of any significant control issues identified in 2006/07 will be agreed when the SIC is prepared and the details included in the published SIC. The officers concerned will also be required to prepare more detailed action plans even if the full details are not included in the published version of the SIC.

## Proposed Timetable

11 The following timetable is proposed for the 2006/07 SIC;

Action	Target Completion Date
Deadline for the receipt of control/governance related issues from Members	13/4/07
Deadline for receipt of Directorate key control self assessments and the completion of the Corporate key control self assessment	18/5/07
Deadline for receipt of Directorate Assurance Statements	23/5/07
Deadline for receipt of S151 and Monitoring Officer Disclosure Statements	23/5/07
Completion of evidence gathering (by Internal Audit)	23/5/07
Consideration of identified control weaknesses by OGG, for possible inclusion in the SIC	1/6/07
Deadline for the preparation of the draft SIC and circulation to OGG	1/6/07
Consideration of the draft SIC by CMT	6/6/07*
Completion of the formal consultation on the draft SIC with the Leader and Chief Executive	13/6/07
Final amendments to the SIC to be completed	15/6/07
Audit and Governance Committee	27/6/07*
Executive	TBA
Full Council	TBA
SIC to be signed by the Leader and Chief Executive	TBA

\* dates of meetings to be confirmed.

## Consultation

12 Not relevant for the purpose of the report.

## Options

13 Not relevant for the purpose of the report.

## Analysis

14 Not relevant for the purpose of the report.

## Corporate Priorities

15 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

## Implications

16 The implications are;

- **Financial** – there are no financial implications other than the time required to undertake the review of key controls and prepare the SIC.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there is a legal requirement for the Council to publish a Statement of Internal Control as part of the annual Statement of Accounts.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

## Risk Management Assessment

17 The Council will fail to comply with legislative requirements if it does not publish a Statement of Internal Control with the annual Statement of Accounts. The Council would be criticised by the external auditor if the process followed to prepare the Statement of Control was not sufficiently robust. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when it is re-assessed.

## Recommendation

18 Members are asked to;

- Consider and agree the proposed process and timetable for the completion of the 2006/07 SIC.

### Reason

*To ensure the Council complies with relevant legislation.*

- Note the intention to report on the progress made to address the significant control weaknesses included in the 2005/06 SIC to the next meeting of this Committee.

### Reason

*To enable Members to consider the adequacy and effectiveness of the Council's control environment.*

## Contact Details

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Report Approved



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## Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

## Background Papers

- Accounts and Audit Regulations 2003 (as amended)
- CIPFA guidance

## Annexes

Annex 1 – Copy of the 2005/06 Statement of Internal Control