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## **Audit and Governance Committee**

26 June 2006

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

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### **2005/06 Statement of Internal Control**

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#### **Summary**

- 1 This reports introduces the draft 2005/06 Statement of Internal Control (SIC) for Members consideration prior to it being reported to the Executive for their approval and recommendation to Full Council on the 29 June 2006.

#### **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 the corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC represents the final stage of the ongoing review of governance arrangements and internal controls. It also enables the Council to formally report on governance related issues relating to the relevant accounting period. The purpose of the SIC is to demonstrate and/or provide;
  - openness and accountability to the public;
  - assurance to stakeholders;
  - a framework for improving the adequacy and effectiveness of corporate governance arrangements;
  - evidence for CPA
- 4 CIPFA has previously issued guidance on the process to follow in the preparation of the SIC (including the need to establish, maintain and review the systems of internal control). The guidance also prescribed the form and content of the SIC. The Council was required to prepare a full SIC for the first time in 2004/05. The process followed to compile the

SIC in 2004/05 was subsequently reviewed by the Audit Commission and described as robust and well documented.

- 5 The 2004/05 SIC process resulted in eleven significant control issues being identified. Details of these issues together with the proposed action to address them, were included in an action plan which formed part of the 2004/05 SIC.

## 2005/06 Statement of Internal Control

- 6 Preparation of the 2005/06 SIC has been coordinated by the Officer Governance Group. The review process followed to prepare the 2005/06 SIC has generally been the same as that followed for the 2004/05 SIC. Each Directorate has completed a self assessment of the key controls within their respective areas. Directors have 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 has been undertaken, and the S151 Officer and Monitoring Officer have 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 has also gathered and reviewed other documentary evidence to identify possible control weaknesses (for example, internal and external audit reports and other inspection reports).
- 7 Local authorities are required to use judgement in deciding whether control weaknesses are significant and hence require disclosure in the SIC. The Officer Governance Group evaluated the control issues identified through the review process and considered which of these should be disclosed as significant control weaknesses, at a meeting with Departmental representatives on 6 June 2006.

At that meeting it was determined that a control weakness would be considered as significant where;

- the issue has seriously prejudiced or prevented achievement of a principal Council aim or objective;
- the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the Council's services;
- the issue has led to a material impact on the accounts;
- the Audit and Governance Committee has advised that it should be considered significant for this purpose;
- the Chief Internal Auditor has reported on it as significant in the annual opinion on the Council's internal control environment;

- the issue, or its impact, has attracted significant public interest or has seriously damaged the Council's reputation;
  - the issue has resulted in formal action being taken by the S151 Officer and/or the Monitoring Officer.
- 8 A copy of the draft 2005/06 SIC is attached as annex 1. The draft includes ten significant control issues. The SIC is scheduled to be signed by the Leader and the Chief Executive following approval by Council on 29 June. Once approved and signed it will then be published as part of the 2005/06 Statement of Accounts.
- 9 It has been recognised that during the year there were no formal arrangements to monitor delivery of the 2004/05 SIC action plan and/or any control weaknesses identified in the Directorate key control self assessments. The Officer Governance Group will in future monitor delivery of the action plan and the progress made by each Directorate to rectify control weaknesses, through periodic focused reviews. It is also suggested that progress on this is reported to A&G as part of the monitoring reports to be brought to Members from OGG, as scheduled in the forward plan.

## Consultation

- 10 Corporate management Team considered the draft 2005/06 SIC on 14 June 2006.

## Options

- 11 Not relevant for the purpose of the report.

## Analysis

- 12 Not relevant for the purpose of the report.

## Corporate Objectives

- 13 This report contributes to the overall effectiveness of the Council's internal management & assurance arrangements in helping to achieve the following corporate objectives;
- Ensure probity, integrity and honesty in everything we do (Objective 8.3).
  - Provide accurate and transparent management information in a timely and effective manner (Objective 8.3).
  - Improve the forward planning, openness, propriety, speed and effectiveness of decision-making (Objective 8.4).
  - Continue to provide sound and timely financial management, and improve medium and long term financial planning. (Objective 8.6).

- Manage the Council's property, IT and other assets on behalf of York residents. (Objective 8.9).
- Implement risk management and business continuity procedures. (Objective 8.10).

## Implications

14 The implications are;

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there are no legal implications to this report.
- **Crime and Disorder** - there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.

## Risk Management Assessment

15 The Council will fail to comply with the Accounts and Audit Regulations 2003 (as amended) if a SIC is not published with the annual Statement of Accounts. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when this is re-assessed in 2007.

## Recommendations

16 Members are asked to;

- Consider and comment on the contents of the draft 2005/06 SIC prior to its submission to the Executive.

### Reason

*To enable Members to consider the contents of the draft SIC, in particular the significant control issues identified, and note any points for reference to the Executive.*

- Note the monitoring arrangements for the overall SIC action plan and the individual action plans for each Directorate, together with the proposals to update members on progress through OGG monitors.

### Reason

*To enable Members to comment on the proposed monitoring arrangements.*

## Contact Details

### Author:

Max Thomas  
Audit and Fraud Manager  
**Audit and Risk Management**  
Telephone: 01904 552940

### Chief Officer Responsible for the report:

Liz Ackroyd  
Assistant Director (Audit and Risk Management)  
Telephone: 01904 551706

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## Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

**For further information please contact the author of the report**