

**FINAL ACCOUNTS COMMITTEE
30 June 2005**

Statement on Internal Control in Local Government

Purpose of report

1. To ask the Committee to consider a draft Statement on Internal Control for 2004/ 05 for initial comment before final approval is sought from the Committee in October 2005.

Background

2. Regulation 4 of the Accounts and Audit Regulations 2003 requires the Council to conduct a review at least once a year of the effectiveness of its system of internal controls and publish a statement on internal control (SIC) each year with the Council's financial statements.
3. The purpose of the SIC process is to provide a continuous review of the effectiveness of the Council's internal control and risk management systems, so as to give assurance on their effectiveness and if appropriate to produce a management action plan to address identified weaknesses in either process. The process is intended to be used to strengthen the corporate governance and internal control framework of the Council.
4. The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced guidance on how these requirements can be met. A copy of the guidance is available to members on request. The CIPFA Guidance contains a useful summary chart of the proposed framework for the SIC and of the review process which it suggests should be followed. A copy of these documents is attached at Appendix 1.

Review Process and Timetable

5. Officers have established a management group to oversee the review process and the preparation of the SIC. The group has representatives from each department, including the Chief Internal Auditor. It is chaired by the Deputy Monitoring Officer. The group has met twice this year to review evidence on the effectiveness of the Council's internal control systems and to agree a draft SIC for initial consideration by this Committee. Further meetings are planned for August and September as part of an ongoing review of effectiveness.
6. The following process and timetable for this work has been agreed in consultation with the Audit Commission:

30th June 2005	Initial consideration of draft SIC by Final Accounts Committee
15 September 2005	Review of draft SIC and supporting evidence by Standards Committee
16 September 2005	Review by Cabinet
October (date to be confirmed)	Final approval sought from Final Accounts Committee to coincide with Audit Commission's report on the final Statement of Accounts.
October	Approved SIC to be signed by Leader and Chief Executive
30th October 2005	Deadline for publication of Statement of Accounts and SIC.

Draft SIC

7. A copy of the draft SIC for 2004/05 is attached at Appendix 2. The draft follows the format suggested in the CIPFA Guidance and draws on evidence obtained from directors' assurance statements regarding the effectiveness of internal controls within their departments, evidence from the work of Internal Audit, and the results of inspections by external bodies such as the Audit Commission, CPA, OFSTED.

8. The overall conclusion based on the evidence seen so far is that the Council's internal control arrangements are working satisfactorily and that no significant weaknesses have been identified.
9. The final section of the draft SIC requires the Council to identify any significant internal control issues affecting the Council during the period covered by the SIC i.e the year 2004/05 through to the date of its publication.
10. The CIPFA guidance suggests that an internal control issue is to be regarded as significant if:
 - the issue has seriously prejudiced or prevented achievement of a principal objective;
 - the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
 - the issue has led to a material impact on the accounts;
 - the audit committee, or equivalent, has advised that it should be considered significant for this purpose;
 - the Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment;
 - the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
 - the issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.
11. On this basis and from the evidence seen to date the management group are proposing to include two matters which are considered to be significant internal control issues within this criteria - budgetary control in relation to the Children and Education overspend and risk management. Details of the action which has been taken and is being taken in order to continue to address these issues are summarised in section 5.

Financial implications

12. There are no financial implications arising directly from the issues covered in this report.

Risk Assessment

13. There are no risks arising directly from the issues covered in this report.

Recommendation

14. The Committee is asked:

- a. to consider the draft SIC in Appendix 2 and to make any amendments or observations on the content.
- b. to note that the draft SIC will be revised in the light of any comments this Committee, the Standards Committee and the Cabinet wish to make, and that it will then be brought back to this Committee in October for final approval before publication by 30 October 2005.

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MONITORING OFFICER

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Unpublished documents relied upon in the production of this report:

The CIPFA Finance Advisory Network: The Statement on Internal Control "A Rough Guide for Practitioners"

CIPFA Guidance "The Statement on Internal Control in Local Government - Meeting the Requirements of the Accounts and Audit Regulations 2003."

Environmental impact of the recommendations contained in the support: None