

STANDARDS COMMITTEE

15 September 2005

CABINET

16 September 2005

Statement on Internal Control in Local Government

Purpose of report

1. To ask the Standards Committee and Cabinet to consider a draft Statement on Internal Control for 2004/ 05 and to make such observations as they consider appropriate on the content for consideration by the Final Audit and Accounts Committee when final approval of the Statement is sought at its next meeting on 26th September 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 three times this year to review evidence

on the effectiveness of the Council's internal control systems and to agree a draft SIC. Further meetings are planned as part of an ongoing review of effectiveness.

6. The following process and timetable for this work was 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
26 th September 2005	Final approval sought from Final Accounts Committee to coincide with Audit Commission's report on the final Statement of Accounts.
30 th September 2005	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 which was considered by the Final Accounts and Audit Committee on 30th June 2005 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, and 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. Section 3 of the draft SIC describes the County Council's current internal control environment. Following further consultation with officers, under the heading of **Establishing and monitoring the achievement of the County Council's objectives**, it is proposed that the first paragraph be amended to read:

'The Council's aims and key priorities are set out in its Performance & Improvement Plan 2004, and its Medium Term Financial Plan. These reflect the long term priorities agreed by the Wiltshire Strategic Board (the County's

Local Strategic Partnership). Both plans will be revised in 2005, and include an assessment of the strategic risks facing the organisation.'

10. 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.
11. 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.
12. On this basis and from the evidence seen up until the time the matter was reported to the Final Accounts and Audit Committee in June the management group included two matters which were 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.
13. The Final Accounts and Audit Committee resolved:
 - (1) To note that the draft Statement on Internal Control will be revised in the light of the comments from this Committee, the Standards Committee and the Cabinet and will then be brought back to this committee on 26th September for final approval before publication by 30 October 2005.*
 - (2) To receive a further report giving an update on the Council's Risk Management Strategy, including details of the risk register, at the next meeting.*
14. The Officers' Management Group subsequently met in August to review the position further and concluded that the projected overspend in the Department for Adult and Community Services, which is the subject of a separate report to Cabinet on 16th September 2005, should be added as a significant internal control issue, under the paragraph headed "Budgetary Control" in

section 5 of the draft SIC. It is therefore proposed that this paragraph be amended to read:

'In common with many other councils, Wiltshire County Council continues to face an increasing demand in social services for children and adults, which brings with it ongoing pressure on the relevant budgets. Extensive change and prospective reorganisation in the NHS add to the complexity. We must therefore continue to focus our budgetary control and performance management on these areas of increasing demand.'

Review of Evidence Supporting Section 4 of the Draft SIC - Review of Effectiveness

15. Evidence to support the SIC comes from three principal sources, as outlined in section 4 of the SIC, Review of Effectiveness. The evidence available from each source is outlined as follows:

- **Chief Officers' Assurance Statements** – the SIC explains that Chief Officers are responsible for reviewing and monitoring internal control in their departments, and now complete and sign annual assurance statements to confirm that adequate arrangements are in place. Copies of all signed statements are attached at Appendix 3.
- **Internal Audit** – a range of audits are undertaken across all departments throughout the year, in order to assess internal control in relation to various systems and activities. The findings and conclusions from each audit are reported separately, and these accumulate to provide the basis for an opinion on internal control within each department, and for the County Council overall. Whilst it would be too voluminous to reproduce individual audit reports here, a summary of audits undertaken in each department throughout 2004-05, and their findings, is attached at Appendix 4. These support the overall opinion that internal control is in place and operating in relation to the various systems and procedures reviewed.
- **External Audit and Inspection** – the Audit Commission undertakes a range of audit and inspection work. During the course of 2004-05 this work incorporated a Comprehensive Performance Assessment in addition to the annual audit of the County Council's accounts and associated service inspections. The results of all this work were reported in the Annual Audit and Inspection Letter for 2004, and an Interim Audit Report 2004-05. Copies of the Letter, and the Interim Report Summary are attached at Appendix 5.

Taken together, these sources provide a good range of evidence in support of the SIC, which should serve to give an assurance that the SIC has been prepared on a sound basis.

Financial implications

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

Risk Assessment

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

Recommendation

18. The Standards Committee and Cabinet are asked to:

- consider the draft SIC in Appendix 2, together with the supporting evidence in Appendices 3, 4 and 5, and the proposed amendments in paragraphs 9 and 14 of this report
- make observations on the content and any recommended amendments for the Final Accounts and Audit Committee to consider at its meeting on 26 September 2005 when final approval of the SIC will be sought.

STEPHEN GERRARD
MONITORING OFFICER

MIKE PRINCE
COUNTY TREASURER

Report Authors: Ian Gibbons, Deputy Monitoring Officer
Steve Memmott, Chief Internal Auditor

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