

FINAL ACCOUNTS AND AUDIT COMMITTEE

29 September 2006

STANDARDS COMMITTEE

4 October 2006

Statement on Internal Control in Local Government 2005/06

Purpose of report

1. To ask the Committee to approve the final version of the Statement on Internal Control for 2005/06 for publication with the Statement of Accounts.

Background

2. The Accounts and Audit Regulations 2003 require the Council to conduct an annual review of the effectiveness of its system of internal controls and publish a statement on internal control (SIC) 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 in order to give assurance on their effectiveness and if appropriate to produce a management action plan to address any weaknesses which are identified. The process is intended to be used to strengthen the corporate governance and internal control framework of the Council.

Review Process

4. The review process is undertaken by an officer group known as the SIC Management Group (SICMG), whose work is monitored by this Committee. The review, which forms the basis of the draft SIC 2005/06, has focussed on the following key areas:
 - Work of the Standards Committee in relation to ethical governance;
 - Work of the Overview and Scrutiny Committees and Task Groups;
 - Developments in risk management through the Corporate Risk Management Group;
 - The CPA "Use of Resources" assessment, and actions required in relation to internal control;
 - Work of Internal Audit and External Audit;

- Performance management;
 - Directors' assurance statements;
 - Budgetary control - adult and children social services;
5. The draft SIC 2005/06 was considered by this Committee on 29 June 2006 and was approved, subject to an amendment (the addition of "and Members" in paragraph 27) which is now incorporated in the final version attached as Appendix 1.
 6. Cabinet agreed the draft on 5 September 2006, as it then stood, in anticipation of approval of the final version by this Committee.
 7. Subject to approval by this Committee, the SIC will be signed by the Leader and Chief Executive for publication with the Statement of Accounts on 30 September.

Audit Commission

8. The Audit Manager, Audit Commission has reviewed the draft SIC for 2005/06 and has advised that the Council has good arrangements for collating information to inform the SIC and that, subject to adoption of the final version by the Final Accounts and Audit Committee on the 29 September 2006 and signature by the Leader and Chief Executive, the draft is in accordance with the CIPFA Guidance and represents a further improvement on last year's version.
9. The Audit Manager made some suggestions for further refinement of the draft. Changes have been made to reflect these as follows:
 - reference to the Council's Staff Strategy, "Success through People" (paragraph 12);
 - inclusion of the audit opinion on the internal control environment for each department as summarised in the Internal Audit Annual Report (paragraph 58);
 - reference to the key conclusions in the Annual Governance Report to the Council for 05/06 issued recently by the Audit Commission (paragraph 62);
 - confirmation of the outcome of the Chief Officers' Assurance Statements (paragraph 63);
 - statement on Monitoring Officer findings (paragraph 64) ;
 - standard statement required before signatures (paragraph 69)

The above amendments are shown italicised and underlined in Appendix 1 for ease of identification.

Overall Conclusion

10. The overall conclusion based on the evidence seen to date is that internal control is in place and is operating satisfactorily in the main, although there are areas of the internal control environment where there is scope for improvement. These are disclosed as significant internal control issues in Section E.

Significant Internal Control Issues

11. Under Section E the Council is required to identify any significant internal control issues affecting the Council during 2005/06 and up to the date of publication of the SIC.

12. 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.*

13. On this basis the draft SIC includes two matters which are considered to be significant internal control issues within this criteria - budgetary control in relation to the overspends in DACS and DCE and partnership arrangements, particularly in relation to Health. Details of the action which is being taken to address these issues are included in section E.

Financial implications

14. There are no financial implications arising directly from this report.

Risk Assessment

15. There are no risks arising directly from this report.

Proposal

16. The Committee is asked to approve the final version of the Statement on Internal Control 05/06 as set out in Appendix 1 for publication with the Statement on Accounts.

**IAN GIBBONS
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Unpublished documents relied upon in the production of this report:

Directors' Assurance Statements for 2005/06.

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