

Meeting of: AUDIT COMMITTEE
Date: 19 OCTOBER 2005
Report of: CORPORATE DIRECTOR (CENTRAL SERVICES)
Reference: aud/audcomm/191005
Title: 2004/05 STATEMENT ON INTERNAL CONTROL
AND CORPORATE GOVERNANCE

PUBLIC/EXEMPT ITEM

This item is for consideration in the public part of the meeting.

PURPOSE OF THE REPORT

To seek the Committee's approval for the draft Statement on Internal Control and Corporate Governance (SIC&CG) for the 2004/05 financial year.

RECOMMENDATIONS

- 1. That the Statement on Internal Control and Corporate Governance for 2004/05 as set out at Appendix B be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.**
- 2. That the contents of the draft Action Plan (Appendix C) and proposals to incorporate actions in the Corporate Improvement Plan are endorsed.**

REPORT

Introduction

The terms of reference of the Audit Committee include: *To approve the annual Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts under the Accounts and Audit Regulations* (the Constitution, part 3 section 8).

A report elsewhere on the agenda seeks Committee approval for the actual Statement of Accounts. This report outlines the elements needed in relation to the systems of internal control, a statement on which must be published alongside the financial statements.

Accounts & Audit Regulations 2003

Regulation 4 requires the Council to maintain a sound system of internal control, including risk management, and introduced a requirement for authorities to review the systems of internal control and publish an annual Statement on Internal Control (SIC) alongside the financial statements.

The Regulations simply state that the SIC should be 'prepared in accordance with proper practices'. In practice, CIPFA is the primary source of guidance on what constitutes proper practice.

Developments Since 2003/04

The regulations allowed for a “transitional” SIC to be produced for the financial year 2003/04, recognising that many authorities would not have the mechanisms in place to be able to produce a fully compliant statement. Lancaster City Council’s statement for 2003/04 was drafted under these transitional arrangements.

For 2004/05 onwards, the transitional arrangements no longer apply and all authorities are now required to produce a compliant statement. In helping achieve this, CIPFA has developed and published further detailed guidance on the production of the SIC.

Management Group

A Management Group, comprising the Corporate Director (Central Services), the Head of Financial Services and the Internal Audit Manager has been established to oversee developments and to prepare the Statement.

Internal Control & Corporate Governance Database

To coordinate the review exercise, Internal Audit has established an “Internal Control & Corporate Governance” database, comprising a framework of controls based on the guidance issued by CIPFA. In compiling the Statement, this database has been reviewed and further developed by the Management Group.

Following an initial assessment undertaken by Internal Audit of the identified controls, the Management Group has undertaken its own evaluation exercise and consulted with the Council’s Management Team, resulting in the scoring demonstrated in the Overview Chart and Evaluation Reports attached at Appendix A.

The finally agreed framework consists of a set of sixty-seven internal control features within the following eight headings:

1. Statutory Obligations
2. Corporate Objectives
3. Corporate Governance
4. Performance Management
5. Risk Management
6. Internal Control
7. Assurance
8. Statement on Internal Control

Assurance

At a lower level, the database contains details of around 150 identified “sources” of assurance, ranging from official documents such as the Constitution to review reports such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings. Links are made in the database between the sources of assurance and the relevant internal control feature.

Statements of Assurance regarding their areas of responsibility for Internal Control have been completed by Service Heads and the results of these have been incorporated into the overall evaluation. The assurances and opinions expressed by Service Heads have been substantially consistent across Services and have generally supported other evidence regarding the Corporate position.

The Draft Statement on Internal Control & Corporate Governance

CIPFA guidance states that the SIC '*...represents the end result of the review of internal control, including the process of risk management, that should be embedded throughout the activities of the authority. As such, production of the SIC should not be conducted as an 'add-on' end of year activity. It should explain the nature of control, and any material changes in control, exercised through the whole of the accounting period.*

Drawing on the results of the evaluation exercise, the Management Group has developed the draft SIC&CG attached at Appendix B. The timescale for the production of the Statement is in line with that for the publication of the financial statements (i.e. 31 October 2005) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:

1. Scope of Responsibility
2. The Purpose of the System of Internal Control
3. The Internal Control Environment
4. Review of Effectiveness
5. Significant Internal Control Issues

As well as addressing the requirements of the Accounts and Audit Regulations, the publication of a Statement on Internal Control and Corporate Governance (as opposed to a Statement on Internal Control) complies with both:

- a) the existing Local Government Statement of Recommended Practice (SORP), which calls for a Statement on Internal Financial Controls (SIFC); and
- b) the CIPFA/SOLACE framework for Corporate Governance, which suggested that a wider corporate governance assurance statement be included with the financial statements.

Signatories to the Statement

The statutory requirement is that the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) should sign the Statement. They must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues. As the statement covers the requirements to produce a statement on Corporate Governance and on Internal Financial Control, it is recommended that the S151 Officer and Monitoring Officer also sign the statement (as was the case for the 2003/04 Statement).

Action Plan

An Action Plan (attached at Appendix C) has been drafted in response to the control issues identified in the Statement. It can be seen from this document that significant progress has already been made on many of the issues. To ensure a cohesive approach, the actions identified have been aligned with existing actions in the Council's Improvement Plan and will be fully incorporated in the next review of that document.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report. The attached SIC highlights that overall, it is felt that effective financial controls are in place.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

DEPUTY MONITORING OFFICER'S COMMENTS

The Deputy Monitoring Officer has been consulted and her comments reflected in the report

SECTION 151 OFFICER'S COMMENTS

The proposals cover the s151 Officer's responsibilities in relation to ensuring that there is an effective system of internal financial control within the Council.

BACKGROUND PAPERS

Accounts and Audit Regulations 2003.