

AUDIT COMMITTEE

Statement on Internal Control and Corporate Governance 2005/06

Report of Corporate Director (Finance & Performance)

PURPOSE OF REPORT

To seek the Committee's approval for the draft Statement on Internal Control and Corporate Governance (SIC&CG) for the 2005/06 financial year.

This report is public

RECOMMENDATIONS

- (1) That the Statement on Internal Control and Corporate Governance for 2005/06 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 approach taken to incorporate actions in relation to identified control issues into the Corporate Improvement Plan is endorsed.

1.0 Introduction

- 1.1 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).
- 1.2 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

- 1.3 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.
- 1.4 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.

2.0 Proposal Details

- 2.1 The draft Statement on Internal Control and Corporate Governance (SIC&CG) has been drawn up following a review of the Councils' framework (see § 2.2) by a Management Group, this year comprising the Corporate Director (Finance & Performance), the Head of Financial Services (s151 Officer), the Head of Legal and HR (the Monitoring Officer) and the Internal Audit Manager.

Internal Control & Corporate Governance Database

- 2.2 The review has again used the "Internal Control & Corporate Governance" database, maintained by Internal Audit, which comprises a framework of controls based on the guidance issued by CIPFA.
- 2.3 Members will recall that, at the last meeting of the Committee resolved that the "Good Governance Standard for Public Services" be used as a self-assessment tool in the preparation of the Council's annual statement on Internal Control and Corporate Governance. Following on from this self-assessment, the framework has been updated to include a number of additional elements of good governance identified in the Good Governance Standard. In all, the framework now comprises seventy-nine controls compared with sixty-seven in last year's exercise.
- 2.4 The results of the Management Group's evaluation exercise are demonstrated in the Overview Chart and Evaluation Reports attached at Appendix A.
- 2.5 The finally agreed framework consists of a set of sixty-seven internal control features within the following eight headings:
1. Statutory Obligations (5 controls)
 2. Corporate Objectives (6)
 3. Corporate Governance (18)
 4. Performance Management (6)
 5. Risk Management (15)
 6. Internal Control (15)
 7. Assurance (10)
 8. Statement on Internal Control (4)

Assurance

- 2.6 To provide evidence of assurance at each level, the database contains details of around 170 identified "sources" of assurance. These range from a record of official policy and strategy 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 between the sources of assurance and the relevant internal control feature are used to inform the evaluation.

Evaluation Results

- 2.7 It can be seen from the comparison with the 2004/05 overview chart that the Management Group feels that a great deal of progress has been made across most areas of the framework. The evaluation has employed a scoring scale of 1 (representing poorly developed arrangements) to 9 (highly effective arrangements), with a target level of 7 currently set for all elements. On this basis, it is judged that the target level has been met or exceeded in 47 (60%) of the 79 controls.

The Draft Statement on Internal Control & Corporate Governance

- 2.8 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.*
- 2.9 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 now in line with that for the approval of the financial accounts (i.e. 30 June 2006) 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
- 2.10 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

- 2.11 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 has been the case for previous years).

Action Plan

- 2.12 A separate action plan has not been drafted. To ensure a cohesive approach to such improvements, actions relating to the "Significant Internal Control Issues" identified in section 5 of the statement have been incorporated into the Council's draft Improvement Plan, which was considered by Council on 14 June 2006.

3.0 Details of Consultation

3.1 Not applicable.

4.0 Options and Options Analysis (including risk assessment)

4.1 As the production of an annual statement is a legislative requirement, no alternative options are identified.

5.0 Conclusion

5.1 The draft Statement on Internal Control and the results of the review undertaken by the Management Group reflect the developments and progress made by the Council during the last twelve months. Adoption of the actions in the draft Action Plan will help maintain this progress and contribute, not only to a further improved position for 2006/07, but also to the quality of other assessments, for example the Audit Commission's Use of Resources assessment.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

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

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been involved in the process of producing the draft SIC&CG and has no further comments.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Accounts and Audit Regulations 2003.

Contact Officer: Derek Whiteway

Telephone: 01524 582045

E-mail: dwhiteway@lancaster.gov.uk

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