

AUDIT COMMITTEE

2006/07 Review of Internal Control and Corporate Governance

24 January 2007

Report of Internal Audit Manager

PURPOSE OF REPORT

To advise Members of the arrangements and timetable for the 2006/07 annual review of the Council's internal control and corporate governance framework.

This report is public

RECOMMENDATIONS

- (1) That the report is noted.
- (2) That Members consider the results from the 2005/06 review and form a view on whether they feel any aspects of the framework require particular attention in the forthcoming review.

1.0 Introduction

Accounts & Audit Regulations 2003

- 1.1 Regulation 4 of the Accounts & Audit Regulations 2003 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.
- 1.2 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 As in the last two years, the draft Statement on Internal Control and Corporate Governance (SIC&CG) will be drawn up following a review of the Council's framework (see § 2.2) by a Management Group to comprise 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 will again use the “Internal Control & Corporate Governance” database, maintained by Internal Audit. This framework, which was initially based on the CIPFA on the Internal Control Framework has been developed over the past two years to incorporate aspects of Corporate Governance that were not clearly specified in the CIPFA guidance.
- 2.3 CIPFA and SOLACE have recently been reviewing their jointly produced 2001 framework “Corporate Governance in Local Government – A Keystone for Community Governance”. It is understood that the results of this review are due to be published in the Spring of 2007 and that the revised guidance is likely to recommend that authorities should issue a “good governance” statement that would incorporate the SIC.
- 2.4 The consultation document issued by CIPFA/SOLACE during this review has been used to compare with the current framework and to gain some assurance that the framework is comprehensive. As it is issued, CIPFA/SOLACE’s revised guidance will again be considered to update/add to the framework. It is beneficial that the Council has already sought to combine Internal Control and Corporate Governance issues in a single statement.
- 2.4 The results of the Management Group’s evaluation exercise in 2005/06 are demonstrated in the Overview Chart and Evaluation Reports attached at Appendix A.
- 2.5 The current framework consists of a set of seventy-nine 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)
- 2.7 The evaluation employs a scoring scale of 1 (representing poorly developed arrangements) to 9 (highly effective arrangements), with a target level of 7 having been set for all elements. On this basis, it was judged that in 2005/06 the target level has been met or exceeded in 47 (60%) of the 79 controls.
- 2.8 At this stage, Members are asked to consider this evaluation and form a view on whether they feel any aspects of the framework require particular attention in the forthcoming review.

Assurance

- 2.9 Assurance in considering the effectiveness of arrangements can be obtained from a number of sources, including:
- Internal Audit reports
 - External Audit reports and judgements
 - Reports and opinions given by other review bodies
 - Managers' assurance statements
 - The work of Council committees, including Overview & Scrutiny and Standards Committee
- 2.10 The 2006/07 review process will seek to identify and evaluate any sources of assurance already in place (for example audit reports issued). It will also include specific internal audit work aimed at reviewing the effectiveness of elements included in the Framework and will also involve obtaining assurance statements from Service Heads. Details of this assurance will be reported to the next meeting of the Audit Committee on 24 April 2007 for Members' consideration in advance of the SIC&CG being presented in June 2007.

The Statement on Internal Control & Corporate Governance

- 2.11 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.*
- 2.12 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 2007) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee).

Signatories to the Statement

- 2.13 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).

Timetable

2.14 The timetable proposed for conducting the review, evaluating the results and producing the annual SIC&CG is as follows:

January – March 2007	Remaining assurance work, including Internal Audit reviews of: <ul style="list-style-type: none">• Corporate Governance• Risk Management• Performance management• Legality
March 2007	Service Heads to complete service specific assurance statements
End of March 2007	Management Group to consider accumulated sources of assurance and produce an initial evaluation of the framework
April?	Any forthcoming CIPFA/SOLACE guidance on Corporate Governance to be considered and built in to the review as necessary
24 April 2007	Audit Committee: <ul style="list-style-type: none">• to consider a report on identified sources of assurance and the Management Group's initial evaluation of the framework• to request any further work or information felt necessary to provide assurance
May/June	Any further review work required Management Group to review its evaluation of the framework and draft the Statement on Internal Control & Corporate Governance (SIC&CG) Management Team to consider the evaluation and draft SIC&CG
End of June 2007	Audit Committee to consider and approve the draft Statement on Internal Control & Corporate Governance.

3.0 Details of Consultation

3.1 Not applicable

4.0 Options and Options Analysis (including risk assessment)

4.1 As the conduct of an annual review of the Internal Control Framework and the production of an annual Statement is a legislative requirement, the options are minimal. Alternative courses of action are available that do not involve the Audit Committee in the way set out in the proposals.

4.2 In terms of the Audit Committee's involvement, it is felt that the proposed arrangements and timetable provides the most appropriate approach and means of fulfilling the Committee's terms of reference regarding internal control and corporate governance and represents a more active involvement than in the past two years.

5.0 Officer Preferred Option

5.1 For the reasons outlined in § 4.2, the officer preferred option is to proceed with the arrangements and timetable set out in the proposals.

6.0 Conclusion

6.1 The report sets out arrangements and a timetable to effectively fulfil for 2006/07 the Council's responsibility to undertake an annual review of its internal control framework.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)
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Not applicable

FINANCIAL IMPLICATIONS

None arising from this report

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS	Contact Officer: Derek Whiteway Telephone: 01524 582045 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/070124
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Internal Audit Plan 2006/07