

AUDIT COMMITTEE

Statement on Internal Control and Corporate Governance 2006/07

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 2006/07 financial year.

This report is public

RECOMMENDATIONS

- (1) That the Statement on Internal Control and Corporate Governance for 2006/07 as set out at Appendix B be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

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 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 The results of the Management Group's evaluation exercise are demonstrated in the Overview Chart and Evaluation Reports attached at Appendix A. The 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)

Assurance

- 2.4 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.
- 2.5 As in previous years, individual "assurance statements" have been sought from Service Heads in relation to internal control and governance arrangements within their areas. This assurance has been built in to the overall evaluation.
- 2.6 The Accounts & Audit (Amendment) Regulations 2006 introduced a requirement that local authorities undertake an annual review of the effectiveness of their internal audit arrangements. For 2006/07, assurance is taken from the review of Internal Audit undertaken by the Audit Commission and which was reported to Audit Committee on 20 September 2006.

Evaluation Results

- 2.7 It can be seen from the comparison with the 2005/06 overview chart that the Management Group feels that further progress has been made across many areas of the framework, with significant progress in some, notably business continuity planning (§6.12) and the monitoring of key risks (§ 5.6). The evaluation reflects the progress made in implementing the new Performance Management Framework and risk management arrangements.

- 2.8 The framework 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 64 (81%) of the 79 controls, which is an improvement of 21% on the 2005/06 evaluation.
- 2.9 Looking forward, the emerging theme is one of continued development and strengthening of arrangements in the areas of corporate governance, performance management and risk management.

The Draft Statement on Internal Control & Corporate Governance

- 2.10 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.*
- 2.11 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 coincides 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). 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
- 2.12 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

- 2.13 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).

Action Plan

2.14 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 already been acknowledged and incorporated into the Council’s Corporate Plan and individual Services’ Business Plans.

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 Corporate Governance 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. Addressing the control issues identified in the statement will help maintain this progress and contribute, not only to a further improved position for 2007/08, 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.

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