

**11<sup>TH</sup> JUNE 2007**

**REPORT OF  
DIRECTOR OF RESOURCES**

**Portfolio: STRATEGIC LEADERSHIP**

**STATEMENT ON THE SYSTEM OF INTERNAL CONTROL  
AND CORPORATE GOVERNANCE 2006/07**

**1. SUMMARY**

- 1.1 The Account and Audit Regulations 2003 and 2006, requires the Council to ensure that its financial management arrangements are adequate and effective and that there is a sound system of internal control in place which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- 1.2 The Regulations also require the Council to conduct a review at least once a year, of the effectiveness of its system of internal control.
- 1.3 To facilitate this requirement, the Chartered Institute of Public Finance and Accountancy ( CIPFA) produced guidance for Local Authorities to follow. Officers have been following this guidance by reviewing the control environment and producing evidence as part of a Statement on the System of Internal Control and Corporate Governance (SIC) as recommended
- 1.4 Although the SIC is incorporated in the Annual Statement of Accounts (SOA), best practice recommends that the SIC should be considered separately from the SOA
- 1.5 The purpose of this report is therefore to consider the content of the draft Statement on the System of Internal Control and Corporate Governance, which is to be presented to the Audit Committee prior to its submission to Council on 29<sup>th</sup> June 2007.

**2. RECOMMENDATION**

- 2.1 That Management Team approves the Statement on the System of Internal Control and Corporate Governance 2006/07,as shown at Appendix 1
- 2.2 That the Statement on the System of Internal Control and Corporate Governance 2006/07 be reviewed by the Audit Committee prior to its submission to Council.
- 2.3 That the Chief Executive and Leader of the Council approve and sign the statement.
- 2.4 That the Statement be incorporated into the Statement of Accounts for the 2006/2007 financial year.

### 3. DETAIL

#### ***Statement of Internal Control***

- 3.1 Regulation 4 of The Account and Audit Regulations 2003, as amended by the Account and Audit Regulations 2004 and 2006, requires the Council to make adequate and effective financial arrangements and to ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.
- 3.2 The Regulations also state that the arrangements shall be reviewed at least once a year to ensure that the system of internal control is effective.
- 3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) produced a comprehensive guide looking at how best to adopt and apply the areas of proper practice.
- 3.4 The guide identified a number of main issues

- **The Background and Legislation**

The guide confirmed that this was a corporate issue and corporate ownership must be achieved. The most senior officer and Member must sign the statement and they must therefore be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment.

The guide emphasised that the statement is about all corporate controls and is not confined to financial issues.

The guide suggested that the following steps are integrated into the review of internal control and assurance process

- Establish statutory obligations and organisational objectives
- Identify the key risks to the achievement of the objectives
- Identify and evaluate key controls and management of principal risks
- Obtain assurances on the effectiveness of key controls
- Evaluate assurances and identify gaps
- Create action plans to address weaknesses and ensure continuous improvement in internal control systems
- Prepare a statement on internal control
- Report to the “appropriate Body charged with Governance”

- **Statement on the System of Internal Control and Corporate Governance (SIC)**

The SIC is a corporate document involving a variety of people charged with delivering governance within the Council.

- Directors, Heads of Service and Managers assigned with the delivery of services and the ownership of risks
- The Financial Officer responsible for the accounting control systems and the preparation of the Statement of Accounts
- The Monitoring Officer in meeting statutory responsibilities
- Members through the Audit Committee and Council
- Others responsible for providing assurance

The guide suggested that the SIC, as a corporate document, should be owned by all senior Officers and Members of the Council. It recommended a shared approach to compile the SIC, because any delegation to a single individual or section would dilute the statement's significance and encourage other people to distance themselves from their proper responsibilities.

- 3.5 Management Team considered a comprehensive report on the requirements to produce the SIC in February 2005 and agreed that a group of senior Officers from all Departments should gather the appropriate evidence as highlighted in paragraph 3.4 above.

Management Team agreed that every Director was required to comprehensively certify that all significant systems, including operational, as well as financial performance management and risk management arrangements are being maintained and that a full schedule of important control systems be prepared. It would demonstrate how services were organised, controlled and monitored, as well as detailing how financial, performance and risk management is being delivered.

- 3.6 The group of senior officers has met during the year to ensure that all relevant evidence was gathered and is available for inspection and review by the Audit Commission as part of their inspection of the Councils management procedures. During a review of the existing arrangements, it was agreed that Heads of Service should be required to complete a detailed self-assessment questionnaire to provide evidence to their appropriate Director that satisfactory arrangements were currently in place or to confirm that actions were to be undertaken to further improve their existing procedures
- 3.7 Attached at Appendix 1 is the Statement on the System of Internal Control and Corporate Governance for the 2006/2007 financial year.

In accordance with CIPFA guide and best practice the statement covers the following areas.

- The scope of responsibility
- The purpose of the system of internal control
- The internal control environment
- Major developmental areas
  - Performance management
  - Risk management
  - A review of the effectiveness of the system of internal control
  - Corporate governance arrangements

- 3.8 Assurance Statements have now been received from most Directors and Heads of Services, in respect of the 2006/2007 financial year and although there are still a number of Statements to be completed, there are no significant issues expected to be identified from them.
- 3.9 Whilst the subsequent corporate statement is generally very positive, there are a number of issues identified in section 6 and 7 of the document where some work was required to be undertaken during 2006/2007 to improve the control environment and further work is planned to ensure that the present systems have fully effective controls in place .

## **4. CORPORATE GOVERNANCE**

4.1 The Council is responsible for ensuring that strong and effective Corporate Governance arrangements are in place which will demonstrate that:

- It has community focus.
- Effective service delivery arrangements.
- Robust structures and processes.
- Effective risk management and internal controls.
- Proper standards of conduct.

The principles underpinning these five 'dimensions' are accountability, integrity, openness and inclusivity.

The Council approved a Local Code of Corporate Governance in 2002, detailing the measures the Council takes to demonstrate how it meets the requirements of the five dimensions. An Action Plan was compiled to ensure that any tasks that were needed to be undertaken to fully comply with the Code were identified and regular monitoring of progress being made to complete the tasks is made by Management Team.

## **5. CONCLUSIONS**

5.1 A substantial amount of progress has been achieved during the last 12 months to ensure that all appropriate control systems are in place and that evidence is available to support the statement.

5.2 It will be necessary to continue to review and update the evidence to ensure that all changes to the existing arrangements are documented.

## **6. RESOURCE IMPLICATIONS**

There are no financial issues arising directly from this report.

## **7. CONSULTATIONS**

Directors and senior Officers from all Departments have been involved in the production of this Statement.

## **8. LINKS TO CORPORATE OBJECTIVES/VALUES**

Reviewing the effectiveness of the Council's systems of internal controls ensures that the following corporate values have been addressed.

- Being responsible with and accountable for public finances

## **9. RISK MANAGEMENT**

9.1 If the Council is not able to demonstrate to the Audit Commission that it has an effective system of internal controls and corporate governance arrangements in place, or any weaknesses were not being addressed, it would inevitably have a detrimental

effect on any Comprehensive Performance Assessment (CPA) review, resulting in the Council not being able to achieve the highest possible rankings.

- 9.2 If there were not adequate control arrangements in place, there is the possibility of financial losses being sustained by the Council as a result of fraud, overpayments to creditors, loss of income etc.
- 9.3 If detailed procedural notes are not drawn up as part of the evidence to support the SIC, there could be a possibility that the business critical services provided by the Council could be affected by events such as a pandemic flu outbreak, a major fire or flood or utility supply disruption etc

## 10. HEALTH AND SAFETY

No additional implications have been identified.

## 11. EQUALITY AND DIVERSITY

No additional implications have been identified.

## 12. LEGAL AND CONSTITUTIONAL

The Council is complying with its statutory responsibilities to produce the statement.

## 13. OTHER MATERIAL CONSIDERATIONS

No other material considerations have been identified.

## 14. LIST OF APPENDICES

Appendix 1 Statement on the System of Internal Control and Corporate Governance 2006/07

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**Ward(s)** Proposals are not ward specific  
**Background Papers:** Account and Audit Regulations 2003, 2004, 2006  
CIPFA Guide to the Statement of Internal Control  
Departmental and Head of Services Assurance Statements

### Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Councils S.151 Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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