



AUDIT COMMITTEE

Public

Date of Meeting: 22nd June 2006

Title: Statement on Internal Control 2006/07

Report of: Director of Corporate Services

Report reference: Financial Memo CORP29/07

Summary:

This report informs Members of the background and legislation relating to the Statement on Internal Control (SIC).

Recommendations:

Members are requested to note and agree the SIC for 2006/07, and the current position relating to each of the issues raised, for inclusion in the Statement of Accounts which will be presented to Council on 28th June 2007. Issues arising from this Action Plan will be fed into the Council's overall Improvement Plan.

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STATEMENT ON INTERNAL CONTROL

Statement on Internal Control - Background and Legislation

Regulation 4 of the Accounts and Audit Regulations (2003) requires the Authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and to publish a Statement on Internal Control (SIC) each year with its financial statements.

The purpose of the SIC process is to provide a continuous review of the effectiveness of the Authority's internal control and risk management systems, so as to give assurance on their effectiveness and/or produce a management action plan to address identified weaknesses in either process. The process of preparing the SIC is intended to add value to the corporate governance and internal control framework of an organisation.

Assurance Process

The assurance process for the SIC is based on information provided by the Corporate Directors following their annual full review of their internal control issues.

It is also required, as part of the assurance process, that the SIC is signed by the Leader of the Council, the Town Clerk and Chief Executive, and the Director of Corporate Services.

Statement on Internal Control for 2006/07

The Statement is attached to this report as **Appendix A**.

In order for Members to gain assurance that evidence is available to support the SIC, a schedule of such evidence, together with copies of the individual Directorates' Statements on Internal Control and other relevant documents, has been prepared and has been placed in the Members' Room for inspection.

Would Members please note that due to the volume of documents involved, in certain cases an extract from the appropriate document has been provided, together with details of where the full document may be obtained if required.

Recommendation

Members are requested to note and agree the SIC for 2006/07, and the current position relating to each of the issues raised, for inclusion in the Statement of Accounts which will be presented to Council on 28th June 2007. Issues arising from this Action Plan will be fed into the Council's overall Improvement Plan.

Director of Corporate Services
June 2007

SECTION 5 - STATEMENT ON INTERNAL CONTROL

SCOPE OF RESPONSIBILITIES

The Authority is responsible for ensuring that:-

- its business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for and used economically, efficiently and effectively;
- it complies with its duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;

To this end Members and senior officers are responsible for ensuring that proper arrangements exist for the governance of the Authority's affairs and stewardship of its resources, including arrangements for the management of risk.

The Authority is committed to the highest standards of Corporate Governance and to ensuring that it complies with the Statement of Recommended Practice (SORP). The Authority is still awaiting the revised "Good Governance Statement" from CIPFA/SOLACE, which will be implemented in due course. This will replace the current Statement on Internal Control and Code of Corporate Governance.

THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

In September 2001 the Authority adopted the Leader and Executive style of political management under the Local Government Act 2000.

The Authority acknowledges its responsibility for the systems of internal control in operation and for ensuring that these systems maintain the integrity of its accounting records and safeguard its assets. The purpose of these systems is to provide reasonable assurance as to the achievement of the policies and objectives of the Authority including the reliability of financial information and to maintain proper control over its income, expenditure, assets and liabilities.

No system of internal control can, however, provide absolute assurance against material misstatement or loss.

The systems of Internal Control are considered and reviewed on a regular basis by the Senior Management Team. The SIC Action Plan is updated and presented to Members of the Audit Committee on a quarterly basis. The SIC for 2006/07 was presented to the Audit Committee on 22nd June 2007. On a service basis, Heads of Service are accountable for ensuring that their staff are aware of, and consistently apply, the requirements of the system of internal control.

THE INTERNAL CONTROL ENVIRONMENT

Controls and Procedures

The internal control framework within which Carlisle City Council operates encompasses a whole range of structures, systems and procedures. In accordance with this, Service Heads are required annually to undertake a full assessment of their internal control systems, to identify weaknesses and to identify progress made to address such weaknesses. Progress made against the resulting Action Plan is reported to the Audit Committee quarterly. The main assurance areas are summarised below.

Council Constitution

In accordance with the Local Government Act 2000, the Authority has produced a comprehensive Constitution that governs its actions and decision-making, and which details specific delegations of authority and financial procedure rules. This document is available to the public on the Authority's web-site. It also sets out detailed specific responsibilities of the roles of the Executive, Overview and Scrutiny Committees, other Standing Committees, Members and Officers. The Constitution is reviewed and revised on an annual basis. A revised version of the Constitution, to reflect the 2006 re-organisation, was agreed by Council at its meeting in May 2006.

Internal Audit

The Authority maintains an Internal Audit Service, which operates to the standards set out in the "Code of Practice for Internal Audit in Local Government in the UK" and is responsible for monitoring the quality and effectiveness of systems of internal control. The Head of Audit Services monitors compliance to the Code on a continuous basis.

Financial Control

The main controls for financial management are set out in the Constitution – these are the Budget and Policy Framework and the Financial Procedure Rules. These cover the arrangements for Financial Management, Financial Planning, Risk Management and Control of Resources, Financial Systems and procedures and External arrangements.

The Council has a Medium Term Financial Planning process which integrates budget and corporate planning to match resources to the corporate priorities. The planning and monitoring framework is co-ordinated through the Strategic Planning Group, which consists of senior Members and Officers. The MTFP for 2007/08 to 2009/10 will be presented to Executive, CROS and Council during June and July 2007.

Regular meetings are held with identified budget managers, and from this budget monitoring reports are prepared for both Capital and Revenue expenditure and considered by the Executive and Corporate Resources Overview and Scrutiny Committee. The Authority is committed to improving the effectiveness of its budget monitoring arrangements and in strengthening the links between budget and performance monitoring.

The annual Statement of Accounts has been produced to statutory deadlines, and year-end actual results are reported against budgets. The Summary Revenue Accounts are shown within the explanatory foreword, comparing actual results against revised budgets. Out-turn reports produced for revenue and capital expenditure are presented to the Audit Committee and are considered by Executive, CROS and Council. The Authority is committed to making continuous improvements to comply with the Local Authority Statement of Recommended Practice and Financial Reporting Standards.

Performance Monitoring

Performance monitoring to ensure achievement of the Authority's objectives is a high priority for the Authority. The Authority's objectives are derived from the Community Plan, and are identified within the Authority's Corporate Plan. This is updated on an annual basis and the key priorities and targets are reviewed. Directorate Plans are produced annually and set specific targets to achieve the aims set out in the Corporate Plan. The corporate performance monitoring report is considered on a quarterly basis by the Senior Management Team, Executive Members and all Overview and Scrutiny Committees. This report includes monitoring of BVPIs and other performance and financial targets.

Risk Management

The Authority's Risk Management Group examines the major governance, operational, financial, external and compliance risks that the Authority faces. From that the Authority has identified the top corporate risks and each Directorate maintains its own Operational Risk Register.

The Authority's Risk Management Policy ensures that the analysis of risk (and its subsequent management) is reviewed continually to take account of the threat to delivery of corporate priorities.

The Corporate Risk Management Group monitors the arrangements for the identification of risks and the updating and maintenance of Risk Registers.

The Head of Audit Services is a member of the Strategic Risk Management Group. All audit reviews are undertaken using a risk-based approach. Reference is made to the Corporate and Operational Risk Registers when formulating the Strategic Audit Plan. Any risks noted during the reviews which have not been included in the Register/s are highlighted in the audit reports. Full systems notes have been prepared for all material systems in accordance with ISA requirements.

REVIEW OF EFFECTIVENESS

The Authority is responsible for reviewing the effectiveness of the system of internal control on an annual basis. This review is informed by the work of Internal Audit and the senior managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and by comments made by the external auditors and other review agencies and inspectorates. The Authority appointed an Audit Committee, w.e.f. May 2006, that meets on a quarterly basis.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

- Regular consideration of the overall Statement of Internal Control Action Plan by the Senior Management Team.
- The Head of Legal and Democratic Services (the 'Monitoring Officer') has a duty to monitor and review annually the operation of the Constitution to ensure its aims and principles are given full effect.
- The Financial Procedure Rules are reviewed annually by the Director of Corporate Services. The 2006/07 revision was ratified by Council on 18th July 2006 (FS.18/06 – Minute C.134/06 refers).

- Procedures for handling breaches to the Authority's Contract Procedure Rules were approved in May 2004. Procedures for dealing with general breaches in procedures are covered by the Fraud Theft and Corruption Response Plan, the "Whistle-blowing" Policy, and by the work of Audit Services.
- The Senior Management Team meets weekly to consider strategic issues including performance management.
- Audit Services reports directly to the Director of Corporate Services and carries out its work in line with the approved Audit Plan which has been produced based upon a risk assessment of activities within the Authority. A written report is produced for appropriate senior managers at the completion of each audit review, which contains an audit opinion and key findings together with an agreed action plan for improvement where appropriate. The Head of Audit Services provides a quarterly management report on progress against the annual plan to the Director of Corporate Services, and an Annual Internal Audit Final Report detailing the overall performance and activity of the Service. These reports are also submitted to the Authority's Audit Committee. The audit function provides an independent review of the adequacy and effectiveness of the system of internal control and is governed by the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006. In accordance with the "Managed Audit" arrangement with the Audit Commission, Audit Services undertake a review of all "material" systems every year.
- The Audit Committee held its first meeting on 12th June 2006. The purpose of the Audit Committee, as outlined in its "Rules of Governance" is to provide an independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- The Authority has three Overview and Scrutiny Committees, which can 'call in' a decision of the Executive to consider whether the decision is appropriate. This power has been used on a number of occasions.
- The Authority's Standards Committee is responsible for monitoring the operation of the Members' Code of Conduct. Following the national consultation relating to an "Officer Code of Conduct", the final version of this Code is still awaited. A decision will be taken as to which Member body will be responsible for its internal monitoring.
- A quarterly system of reporting, to Members, performance on BVPIs, performance against business plans and financial targets is in place, and has been reviewed to improve the corporate coverage of the reporting and linkages between financial and performance monitoring.

SIGNIFICANT INTERNAL CONTROL ISSUES

The following significant internal control issues have been identified which will be addressed as a matter of priority:

Issue	Current Position
Formal approval of a "Code of Corporate Governance".	The Code of Corporate Governance and a statement of its principles will be included, in due course, as part of the preamble to the Financial Procedure Rules. The CIPFA/SOLACE Working Group on Good Governance issued a draft consultation document in June 2006 entitled "Good Governance in Local Government", which is intended to update the governance framework "Corporate Governance in Local Government: A Keystone for Community Governance". The deadline for responses to the draft was 11th September 2006. The final version is still awaited. The SORP for 2006/07 still refers to the requirement for an SIC, but suggests that we may consider producing a wider-ranging "governance statement" as long as it meets at least the requirements of the SIC. For 2007/08, it seems that the SIC and the COCG will be replaced by/combined into a single "Good Governance Framework".
Further analysis and management of Corporate and Business Risk.	Service Heads are responsible for ensuring that, on a regular basis, Operational Risk Registers are updated, but this action is not being taken in all cases. The Corporate Risk Management Group is currently pursuing this action. The Portfolio Holder sits on the Corporate Risk Management Group. The Audit Committee receives quarterly reports relating to the Corporate Risk Registers, but does not receive information relating to the Operational Risk Registers.
Ensure that adequate training and support are available for the Audit Committee	Training is being provided for new and existing Audit Committee Members as required.
Review effectiveness of Corporate Procurement Policy,	This work is being co-ordinated by the Senior Management Team.
Development and procedural documentation of the Financial Information System and the "business	Progress has been made to ensure that documentation of systems and processes is made available and continually updated.

<p>critical” systems as required by the Audit Commission.</p>	<p>Responsibilities for particular system/documents have been clarified and assigned. Updates are monitored.</p> <p>Audit Services have asked all Services to identify their Business Critical Systems and to confirm that procedures have been/will be adequately documented – also that there are adequate “back-up” procedures in place.</p>
<p>This Authority has no system of Control Risk Self Assessment in operation.</p>	<p>A report was presented to SMT on 3rd April 2007. This outlined the advantages and disadvantages, to the Authority, of implementing a full system of CRSA. It was agreed that at present, the Authority has progressed as far as in necessary towards the concept of CRSA. We have reached a satisfactory working balance between the requirement for managers to be seen as having "ownership" of their systems and controls, yet maintaining also the concept of, and requirement for, an independent view thereof by Audit Services.</p>
<p>Due to problems experienced with the implementation of the new bank reconciliation system, the authority did not maintain regular bank reconciliations from 1st April 2004.</p>	<p>External Audit assurance was received for 2004/05 and 2005/06. For 2006/07 a full monthly balance is maintained.</p>
<p>S11 recommendation – the Council should improve its financial management arrangements and systems of internal controls, in order that it is able to prepare financial statements, which are free from material error and demonstrate proper stewardship of public money.</p>	<p>An Action Plan has been produced to tackle the weaknesses as set out by the External Auditors for the 2005/06 accounts process. This Action Plan has been used to improve the 2006/07 Final Accounts process.</p>
<p>The former DSO system, Contractor Plus, is difficult to integrate to the main accounting system. Now that the Final Accounts closedown process is significantly shorter - 30th June - there is a significant risk that closedown will not be achieved on time due to problems in reconciling the two systems</p>	<p>A procurement process for a replacement system has been undertaken. Tenders have been returned from potential suppliers and a feasibility study is under way in order to determine the Unit’s business requirements before the decision to award the contract is taken.</p>

Statement of the Leader, the Town Clerk and Chief Executive and the Director of Corporate Services

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control and plans to address weaknesses and actions will be monitored regularly through SMT and the Audit Committee to ensure that improvements are actioned in accordance with the time-scales set.

Signed:

Councillor M. R. Mitchelson

Leader of the Council

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Maggie Mooney

Town Clerk and Chief Executive

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Angela Brown

Director of Corporate Services

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