



AUDIT COMMITTEE

Public

Date of Meeting: 21st June 2006

Title: Statement on Internal Control

Report of: Director of Corporate Services

Report reference: Financial Memo FS22/06

Summary:

This report informs Members of the background and legislation relating to the Statement on Internal Control (SIC). It also includes, for Members' attention, the Action Plan relating to the SIC.

Recommendations:

Members are requested to note the information relating to the SIC, the attached Action Plan, and the current position relating to each of the areas that have been identified. Issues arising from this Action Plan will be fed into the Council's overall Improvement Plan. Members are also requested to note and agree the Statement on Internal Control for 2005/06, for inclusion in the Statement of Accounts which will be presented to Council on 29th June 2006.

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STATEMENT ON INTERNAL CONTROL AND CODE OF CORPORATE GOVERNANCE

1 - Statement on Internal Control - Background and Legislation

1.1 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.

1.2 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.

2 Assurance Process

2.1 The assurance process for the SIC is set out in **Appendix A**, based on information provided by the Corporate Directors following their annual full review of their internal control issues

2.2 This has resulted in an Action Plan being prepared which is attached as **Appendix B** – this is monitored quarterly by SMT.

3 - Recommendation

Members are requested to note the information relating to the SIC, the attached Action Plan, and the current position relating to each of the areas that have been identified. Issues arising from this Action Plan will be fed into the Council's overall Improvement Plan. Members are also requested to note and agree the Statement on Internal Control for 2005/06, for inclusion in the Statement of Accounts that will be presented to Council on 29th June 2006.

Director of Corporate Services
June 2006

APPENDIX A

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 working towards a Corporate Governance Policy and Plan which is consistent with the framework document "Corporate Governance in Local Government; a Keystone for Community 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 Corporate Resources Overview and Scrutiny Committee on a quarterly basis (this will be the Audit Committee w.e.f. May 2006). The SIC for 2005/06 was presented to the Audit Committee on 21st June 2006. 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. 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 its 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 was agreed by Council on 3rd May 2005 (LDS 22/05 minute C.69/05 refer). A further revision, to reflect the 2006 re-organisation, was presented to Council in due course.

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 and they 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 Financial 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 2006.

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. Progress made against individual Directorate Plans will be reported to CROS on a quarterly basis.

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 – considered by Executive,

CROS and Council. The Authority is committed to making further 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 Risk Register.

The Authority's Risk Management Policy, which will ensure that the analysis of risk (and its subsequent management) has been reviewed to take account of the threat to delivery of corporate priorities. This was considered by the Executive and Corporate Resources Overview and Scrutiny Committee and the Policy was submitted to Council on 19th July 2005 for formal approval.

The Strategic 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 Risk Register held in each Business Unit, and any risks noted during the reviews which have not been included in the Register, are highlighted in the report. Full systems notes have been prepared for all of the material systems which were identified for 2005/06, 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 has appointed an Audit Committee w.e.f. May 2006 – see below.

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 2005/06 revision has been completed, and will be presented to the Audit Committee on 21st June 2006 for consideration and approval, prior to being presented to Council for ratification.
- 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 Internal Audit.
- The Senior Management Team meets weekly to consider strategic issues including performance management.
- The Internal Audit function 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 section. 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. During 2004/5 this work was expanded to include the main accounting and budgetary control system under the Managed Audit arrangements. For 2006/07, "fixed assets", "planning" and "grants" have been added as material reviews.
- The Council has now appointed an Audit Committee which 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	Action
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 proposed changes to the FPRs will be reported to the Audit Committee on 21st June 2006, prior to being submitted to Council.
Further analysis and management of Corporate and Business Risk.	The Corporate Risk Register has been revised and updated and training workshops were held for the Corporate Risk Management Group, and for CMT, in September 2005. Service Heads are responsible for ensuring that, on a regular basis, Operational Risk Registers are updated. The Portfolio Holder now sits on the Corporate Risk Management Group. The Audit Committee will receive quarterly reports relating to the operation of the Risk Registers
To ensure that Job Descriptions are updated for all staff, in preparation for Job Evaluation.	Ongoing - Directors are responsible for ensuring that Job Descriptions are addressed and up to date - to be addressed as part of 2006 appraisal process.
Ensure that adequate training and support are available for the new Audit Committee	The Audit Committee was set up on 22nd May 2006 - its first meeting was 12th June 2006- a training programme is being put into place.
Review effectiveness of Corporate Procurement Policy,	This work will be co-ordinated by the Senior Management Team.
Development and procedural documentation of the Financial Information System.	This work will be progressed as part of the 2005/06 Final Accounts preparation.
This Authority has no system of Control Risk Self Assessment in operation.	For consideration in due course. Time will be required for the new structure to "bed in". This will be considered during 2006/07 in preparation for the 2007/08 Audit Plan and the work will be co-ordinated by the Head of

	Audit Services
Due to problems experienced with the implementation of the new bank reconciliation system, the authority has not maintained regular bank reconciliations from 1 st April 2004. A full systems - based reconciliation was achieved in December 2005. Since this date full reconciliation has not been achieved and is currently unbalanced by c£120. During 2006/07 the bank reconciliation has been fully balanced on a daily basis. There are, however, problems still remaining and reconciliation is achieved partly on a manual basis.	To ensure a properly balanced position is maintained.
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.	A full Action Plan was agreed by Council on 27 th April 2006 and this is being progressed.
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	Discussions are taking place between the two Directorates as a matter of priority to ensure that these systems and processes are more efficient on the current system. A budget has been approved to replace the Contractor Plus system and a full business case will be produced during the year. (Target date March 2007)

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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Statement on Internal Control - Action Plan
Updated 9th June 2006

Ref	Action	Priority	Risk	Owner	Deadline	Progress To Date
1	Formal approval of a "Code of Corporate Governance" is in course of development - its production is being co-ordinated by the Senior Management Team.	High	High	Corp	Aug-06	The Code of Corporate Governance statement of its principles will be in due course, as part of the preamble to the Financial Procedure Rules. The proposed changes to the FPRs will be reported to the Audit Committee on 21st June 2006 and being submitted to Council.
2	Further analysis and management of Corporate and Business Risk is needed to ensure that corporate risk is addressed and that Risk Registers and Business Continuity Plans are complete and maintained on an ongoing basis. This work is being co-ordinated by the Risk Management Group which is chaired by the Deputy Chief Executive.	High	Medium	PPP	Ongoing	The Corporate Risk Register has been reviewed and updated and training workshops for the Corporate Risk Management Group for CMT, in September 2005. Senior Management is responsible for ensuring that, on an ongoing basis, Operational Risk Registers are maintained. The Portfolio Holder now sits on the Risk Management Group. The Audit Committee will receive quarterly reports relating to the operation of the Risk Registers
3	Job Descriptions are to be updated for all staff in each Directorate, in preparation for Job Evaluation.	High	High	PPP	01-Sep-06	Ongoing - Directors are responsible for ensuring that Job Descriptions are addressed on a regular basis - to be addressed as part of the Job Evaluation process.

4	Ensure that adequate training and support are available for the new Audit Committee	High	High	LDS and Corp	Sep-06	The Audit Committee was set up o 2006 - its first meeting was 12th J training programme is being put ir
5	Ensure that the Corporate Procurement Policy is delivering the expected outcomes.	High	High	Corp	Sep-06	A report was presented to Corpora Overview and Scrutiny Committee 2006 to update Members. Report FS5/06. The responsibility for pro transferred to the Corporate Servi Directorate and progress will be re shortly. Resources required to prc initiative are still under negotiatio
6	Development and procedural documentation of the Financial Information System and of the business critical systems as required by the Audit Commission will be co-ordinated by Corporate Services.	High	High	Corp	Jun-06	This work will be progressed as pa 2005/06 Final Accounts preparatio
7	This Authority has no system of Control Risk Self Assessment in operation.	Medium	Medium	Corp	Mar-07	For consideration in due course. T required for the new structure to " will be considered during 2006/07 preparation for the 2007/08 Audit work will be co-ordinated by the H Services

8	Due to problems experienced with the implementation of the new bank reconciliation system, the Authority did not maintain regular bank reconciliations throughout 2004/05. Full reconciliation was achieved in December 2005.	High	High	Corp	Ongoing	Work is still ongoing as a matter of The Audit Commission's judgement 2004/05 accounts in relation to the reconciliation has now been received are not proposing to qualify the accounts in respect. They have, however, raised a potential qualification issue for 2005/06.
9	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.	High	High	Corp	Sep-06	A full Action Plan was agreed by Council in April 2006 and this is being progressed.
10	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	High	High	Corp/Comm	Sep-06	Discussions are taking place between Directorates as a matter of priority that these systems and processes be made more efficient on the current system. It has been approved to replace the Contractor Plus system and a full business case will be produced during the year. (Target 2007)