

Meeting: Audit Committee

Date: 30 May 2006

STATEMENT OF INTERNAL CONTROL

NON-KEY DECISION

Author John Dickson ext. 2404
Lead Officer Scott Crudgington ext. 2185

1 PURPOSE

Members to review the Council's Statement on Internal Control (SIC) before it's inclusion in the 2005/06 Statement of Accounts.

2 RECOMMENDATION

That Members review and approve the Statement on Internal Control as detailed in the Appendix before it's inclusion in the 2005/06 Statement of Accounts.

3 BACKGROUND

Regulation 4 of the 2003 Accounts and Audit Regulations requires that:-

- The Council shall be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- The Council shall conduct a review at least once in a year of the effectiveness of its systems of internal control and shall include a statement on internal control in its Statement of Accounts.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

Discussion.

- 4.1 A SIC was included in the 2004/05 Statement of Accounts, which was approved by the Statement of Accounts Committee on 28 July 2005. This SIC was subsequently reviewed by the Resources and Corporate Management Scrutiny and Review Panel in October 2005.

- The Council's Statement on Internal Control be noted and that it be recommended for approval by the Scrutiny Overview Committee.

4.2 The following points were raised at the meeting:-

- possibility of producing the SIC in flowchart form
- the internal audit partnership to review the document
- the setting up of an Audit Committee
- aim for the maximum grade 4 in the 2005/06 Use of Resources assessment

4.3 The second and third points above have been achieved. It is not appropriate for the SIC to be in flowchart form, however flowcharts are being developed for the key financial systems and audit use the tool when reviewing processes and systems. Finally the Council's target is for grade 4 and an improvement plan is in place to progress towards its achievement.

4.5 The proposed SIC for 2005/06 is attached as an appendix. It has been updated since last year to reflect guidance and Audit Commission recommendations. It has been reviewed by Internal Audit and was discussed and approved by SMB on 16 May 2006.

4.6 Continuing emphasis is being placed on local authorities to improve their financial management arrangements. As part of the Audit Commission's review of local authorities, the Council has undergone a Use of Resources assessment. The average grade (out of 4) for the five themes is as follows:-

	Assessment
Financial Reporting	2
Financial Management	3
Financial Standing	2
Internal Control	2
Value for Money	2
Overall	2

4.7 The Statement on Internal Control forms part of the Internal Control theme. Overall, this theme deals with risk management and seeks to establish that:-

- The Council manages its significant business risks.
- The Council has arrangements in place to maintain a sound system of internal control

4.8 The summary of risks identified by external audit were as follows:-

Audit Risk	External Audit response
Statement of Internal Control (SIC):	

During our use of resources review for 2005/06 we noted weaknesses in the assurance framework to support the preparation of the SIC and to enable review by members.	We will review the arrangements in-year for the production of the SIC and the engagement of Members in its review.
Audit Committee	
The Council recognises the need to constitute an independent audit committee for monitoring and accountability of audit matters both internal and external	We will work with the Council in developing terms of reference and a constitution for a stand alone Audit Committee.

4.9 The Council's SIC is being presented to the Audit Committee for review and approval in advance of the Statement of Accounts submission to Members in June 2006.

5. **Implications.**

5.1 Finance Implications

Robust scrutiny of the Council's Statements on Internal Control and operation in line with best practice, including the Audit Commissions Use of Resources assessment will further strengthen the Council's sound base of strong financial management and assist in reducing future risk.

5.2 Other Implications

The use of resources judgements form part of the CPA framework.

Background Document

Audit Commission 2004/05 audit and inspection letter.
Audit Commission Use of Resources assessment.

Appendices

Appendix A – draft 2005/06 Statement on Internal Control.
Appendix B – Use of Resources assessment for Internal Control.