

**REPORT FOR DECISION**

Agenda Item	
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**MEETING:** Audit Committee

**DATE:** 20<sup>th</sup> February 2007

**SUBJECT:** Process For Continuous Update of Statement on Internal Control

**REPORT FROM:** Head of Strategic Finance

**CONTACT OFFICER:** Stephen Kenyon

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**TYPE OF DECISION:** NON KEY DECISION

**FREEDOM OF INFORMATION/  
STATUS:** For Publication

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**SUMMARY:**

This report outlines the reasons the Authority produces a Statement on Internal Control, the methods employed, and proposes a process to allow quarterly updates of the statement in line with recommended practice.

**OPTIONS AND RECOMMENDED OPTION (with reasons):**

Members are requested to note the contents of the report and endorse the approach outlined.

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**IMPLICATIONS -**

**Corporate Aims/Policy Framework:**

**Financial Implications and Risk Considerations**

Do the proposals accord with the Policy Framework?  Yes No

The Statement on Internal Control is a fundamental document for recording, monitoring, and communicating the state of internal control within the Council. Failure to prepare an effective Statement, and failure to update on a regular basis present a significant

**Statement by Director of Finance and E-Government:**

risk.  
 Publication of the Statement on Internal Control is a requirement of the Accounts and Audit Regulations 2003 (amended 2006).

**Equality/Diversity implications Considered by Monitoring Officer:** Yes  No   
 Yes  No

Are there any legal implications? Yes  No

**Staffing/ICT/Property:** No

**Wards Affected:** No

**Scrutiny Interest:** Potential input to Statement updates

**TRACKING/PROCESS**

**DIRECTOR:** Finance & eGovernment

Chief Executive/ Management Board	Executive Member/ Chair	Ward Members	Partners
Scrutiny Commission	Executive	Audit Committee	Council
		20/2/07	

**1.0 Purpose of the Statement on Internal Control**

1.1 The purpose of the Statement on Internal Control (SIC) is to provide a continuous review of the effectiveness of an organisation’s internal control and risk management systems, so as to give an assurance on their effectiveness and to produce a management action plan to address identified weaknesses.

1.2 The process of preparing a SIC adds value to the corporate governance and internal control framework of an organisation.

**2.0 CPA / Use of Resources Context**

2.1 The importance of the SIC is recognised within the CPA / Use of Resources assessment framework.

2.2 Specifically, the Council’s latest Use of Resources Judgement (November 2006) states;

*“The Authority needs to strengthen the assurance framework and ensure that the review of the SIC becomes a regular quarterly process”*

## 2.3 Guidance in respect of the 2007 judgement states with regard to the SIC;

Guidance	Proposed Action
An appropriate member group has responsibility for review and approval of the SIC and considers it separately from the accounts (level 2)	A SIC Challenge Panel is to be established to review and approve the 2006/07 SIC; independently from the Audit Committee.
The Council has conducted an annual review of the effectiveness of the system of internal control and reported on this in the SIC (level 2)	The Council will undertake a <u>continuous</u> review of the system of internal control, and report quarterly to Management Board and the Audit Committee.
The sources of assurance to support the SIC have been identified and reviewed by senior officers and members (level 2)	Sources of assurance have been identified (section 5). Quarterly updates will be reported to Management Board and the Audit Committee for review.
There are action plans in place to address any significant internal control issues reported in the SIC (level 2)	Action plans will be prepared as necessary and monitored by Management Board / Audit Committee
The assurance framework provides members with information to support the SIC (level 3)	Full supporting documentation will be provided to the SIC Challenge Panel and the Audit Committee.
The Council can demonstrate corporate involvement in / ownership of the process for preparing the SIC (level 4)	The Leader of the Council, Chief Executive, Directors, and Head of Internal Audit will all produce (and sign) a certificate of internal control outlining their role in the internal control framework, an opinion of the adequacy of controls in their relevant area, and their role in the SIC process

## 3.0 Content of the Statement on Internal Control

3.1 The Authority's current SIC (2005/06) is structured around the following key elements of the control environment;

- Establishing and monitoring the achievement of the authority's objectives

- The facilitation of policy & decision making
- Ensuring compliance with established policies, procedures, laws and regulations
- Identifying, assessing and managing the risks to the Authority's objectives
- Ensuring Best Value and continuous improvement
- The financial management of the Authority and the reporting of financial management
- The performance management of the Authority and the reporting of performance management

3.2 The SIC assesses the adequacy of internal control in these areas, and proposes a management action plan where appropriate.

#### 4.0 New Requirements of the Statement on Internal Control

4.1 In preparing the SIC for 2006/07, the following amendments to the Accounts and Audit Regulations need to be considered;

Guidance	Proposed Action
The findings of the review of the system of internal control to be considered by a committee of the relevant body, or by members of the body meeting as a whole	Quarterly reviews of the SIC will be reported to Management Board and the Audit Committee; actions plans being prepared where necessary. The annual SIC will be authorised by the SIC Challenge Panel
Bodies to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or the body as a whole, as part of the consideration of the system of internal control referred to above.	Annual Reviews of the Internal Audit function will take place; findings and action plans being reported to the Audit Committee.

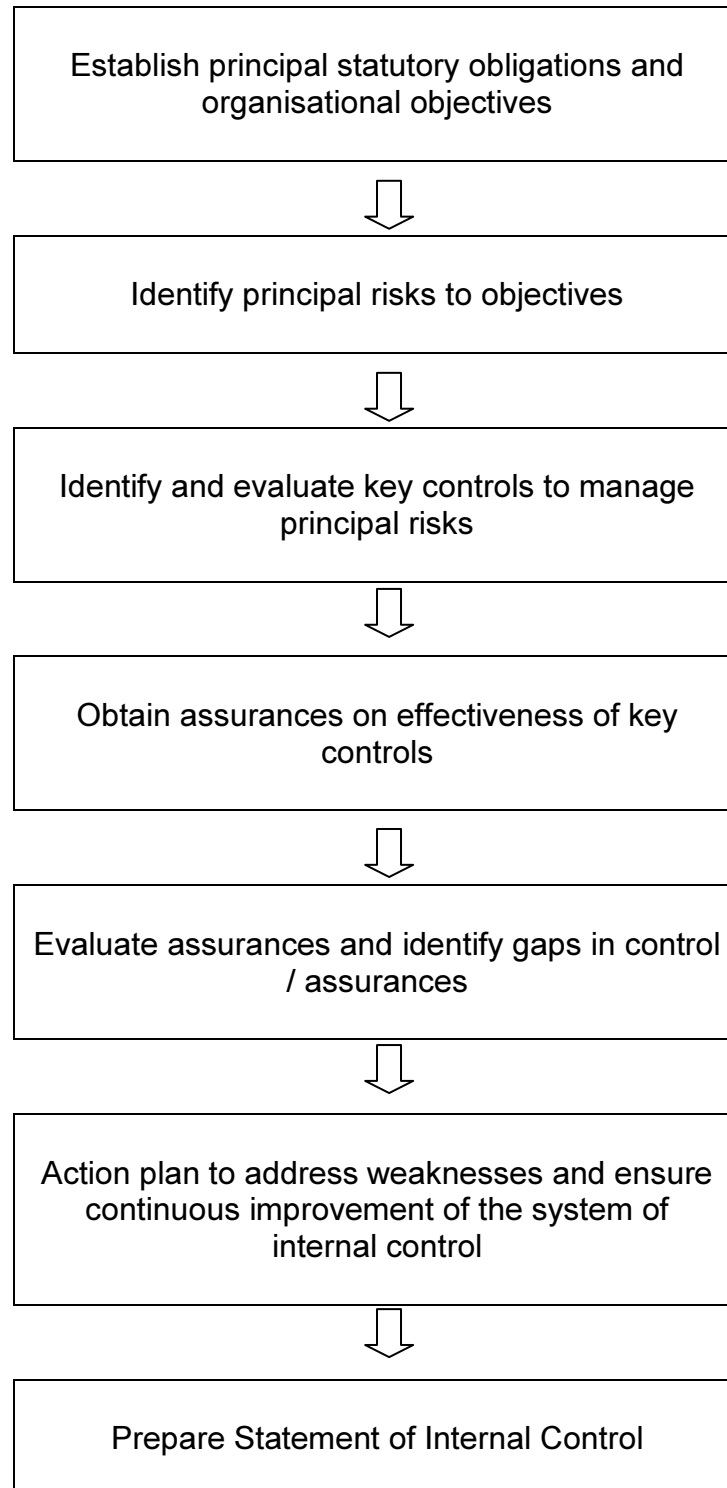
4.2 Similarly, the CIPFA SORP (2006) requires that the SIC should;

Guidance	Proposed Action
Embrace controls over group activities where an authority undertakes significant activities through a group	Work is already underway to identify significant group activities, e.g. Six Town Housing

4.3 CIPFA / SOLACE are currently reviewing the code of practice for governance in Local Government. It is likely that from 2007/08 onwards, the SIC will be replaced by a wider "Governance Statement"

## 5.0 Review Process

5.1 The following chart outlines the process for preparation of the SIC;



5.2 The Authority is committed to undertaking a quarterly review of the SIC. The following sources will inform this process;

- Findings from work undertaken by Internal Audit
- Findings from work undertaken by External Audit
- Work undertaken by other agencies / inspectorates
- Finance / Performance Reports to Star Chambers
- Quarterly Review of Risk Management Registers (all levels)
- Budget Monitoring Reports
- Performance Management (PIMS) Monitoring System
- Views of Monitoring Officer
- Views of Directors / Management Board
- Feedback from Scrutiny Panels

5.3 The updated quarterly SIC will be reported to Management Board, and the Audit Committee.

## **6.0 Conclusion**

6.1 Quarterly update of the Statement on Internal Control is a requirement, and represents good management practice. The Authority must produce its next Statement to accompany the 2006/07 Statement of Accounts (as at 31<sup>st</sup> March 2007). Thereafter the Statement will be reviewed on a quarterly basis, and reported to Management Board and the Audit Committee.

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### **List of Background Papers:-**

2005/06 Statement on Internal Control  
Use of Resources Auditor Judgement 2006  
Use of Resources Key Lines of Enquiry 2007  
CIPFA Guidance

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