

Title of Report:

**Statement of Internal Control –
Arrangements for Delivery and Review**

Item 7

Report to be considered by: Governance and Audit Committee

Forward Plan Ref:

Corporate Plan Priority: D4 – Stronger governance

The proposals contained in this report will help to achieve the above Corporate Plan priority by:
Ensuring that there is a robust process in place for the Statement of Internal Control

Purpose of Report:

To outline the proposed process for the preparation of the
Statement of Internal Control

Recommended Action:

To approve the process for preparing the Statement of Internal
Control

Reason for decision to be taken:

To ensure that the SIC has appropriate supporting evidence and
that it is prepared in time to be reviewed by this committee

List of other options considered:

none

Key background documentation:

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Supporting Information

1. Background

- 1.1 The Statement of Internal Control forms part of the Council's Statement of Accounts. It was introduced for the 03-04 accounts. In effect it is a statement of assurance that the internal control framework of the Council is robust and that any risks to the Council have been identified and actions put in place to mitigate them.
- 1.2 The Council was criticised in the CPA use of resources / internal control score for not having a sufficiently robust process for preparing and reviewing the SIC. The aim of this report is to rectify this. Attached is a report to Corporate Board setting out the process for approving the SIC, including providing supporting evidence and a timetable for the process as a whole.

Appendices

A – Report to Corporate Board on the preparation of the SIC

Consultation Responses

Local Stakeholders:	None
Officers Consulted:	None
Trade Union:	None

Implications

Policy:	None
Financial:	None
Personnel:	None
Legal:	None
Property:	None
Risk Management:	None

**Delivering assurance for
the Statement of Internal Control**

**Report for
Corporate Board**

December 05

1 Purpose

- 1.1 The aim of this report is to propose improvements to process of preparing the SIC to try to ensure that the Council's CPA use of resources score for internal control moves to 4 for 05-06.
- 1.2 The main weaknesses identified by the Audit Commission were:
- Lack of evidence of Member engagement
 - Some question marks over the effectiveness of the Operational Risk Registers managed by each Head of Service, ie the process is not fully embedded.
 - No independent review by Members of the SIC separate from the approval of the statement of accounts.
- 1.3 The Audit Commission has a tendency to move the goal posts for the CPA KLoE's. Consequently the process outlined below is designed to move the Council ahead of the KLoE requirements for 04-05 and anticipate changes for 05-06.

2 Revised process

- 2.1 The key vehicle for providing the assurance to underpin the SIC is the risk register.
- 2.2 At Corporate level the Strategic Risk Register is being used effectively.
- The register is reviewed on a quarterly basis by Corporate Board
 - The SRR is reported to the Executive annually
 - The SRR is referred to the Governance and Audit Committee annually
 - The SRR identifies relevant officer and Member responsibility for individual risks and controls.
- 2.3 The SIC should contain an outline of key risks faced by the Council and the proposed actions to mitigate the risks. However, there is no direct link from the SRR to the SIC and no mention of the risks or actions being taken.

I recommend that a member of Corporate Board be assigned responsibility for the SRR, the Monitoring Officer, and that he be required to produce a statement of assurance on the operation of the SRR to the Governance and Audit Committee that can be considered alongside the SIC. Also the key strategic risks should be noted in the SIC along with an outline of the proposed actions for dealing with the risks

- 2.4 At service level each Head of Service is responsible for maintaining an operational risk register. These appear to be operating less effectively. A recent Internal Audit of the process identified that there is little evidence of the ORR's being used or reviewed regularly. It appears that Heads of Service regard the registers as being of little practical use and the process of their completion as a tick box exercise. Also in many instances the "controls" identified in the registers are insubstantial, and there is no link between the risks and the service objectives.
- 2.5 The proposal to remedy these weaknesses has two strands. One is to make the risk registers more useful to Heads of Service the second is to tighten up the audit trail to ensure that there is evidence of the embeddedness of the risk registers.

I recommend that we review, through the Risk Management JCC, the format of the risk registers.

As a start we have amended the format so that the service objectives are used as the starting point. The new format has been trialed with the ICT service. Copy of the register is attached.

I recommend that we tighten the audit trail in the following ways.

- Risk Registers must be formally reviewed by each service SMT quarterly and the results of the review be minuted. (This mirrors the review of the SRR by Corporate Board)
 - The Risk Register should be attached to the Head of Service Assurance Statement.
 - The Head of Service Assurance Statement should be signed by the Head of Service and countersigned by both the Corporate Director / Chief Executive and the relevant Portfolio holder. (This brings Members firmly into the loop)
 - Any Risks that have a net score that is Red should be reviewed formally by Corporate Board to determine whether note should be made of the risk in the SIC.
- 2.6 The responsibility for preparing the SIC has not been clarified. In the past this has been written by the Head of Accountancy with input from the Head of Assurance and Head of Policy. The s151 Officer has then reviewed the SIC before it is signed by the Chief Executive and Leader of the Council. However, the s151 Officer has not made a separate report to support his review
- 2.7 In addition the SIC has been prepared before all the required evidence has been collated to support the Statement. (This is largely due to the very short timescales allowed because of the need to publish the SIC with the Statement of Accounts) EG many of the Head of Service Assurance Statements were produced well after the publication of the Statement of Accounts.

2.8 The SIC has not been reviewed separately from the statement of accounts.

I recommend that we put the following process in place.

- The Head of Assurance lead on the production of the SIC
- The Head of Service Assurance Statements should be signed off by the Portfolio Holder by 31st March at the latest.
- The SIC should be reviewed by the Governance and Audit Committee.
- The Governance and Audit Committee should also review the following supporting evidence.
 1. All of the Head of Service Assurance Statements and supporting Risk Registers
 2. The Assurance Statement form the Monitoring Officer in respect of the SRR
 3. An Assurance Statement from the s151 Officer
 4. The Annual report from Internal Audit that will include an opinion of the adequacy of the Internal Control Framework.

2.9 A draft timetable for preparation of the SIC is attached.

Timetable for preparation of the SIC

	Item	Recipient	Deadline
1	Heads of Service Assurance Statements signed off by Corporate Director and Portfolio Holder along with Service Risk Register and Action Plan		28.2.06
2	Corporate Directors bring forward any Red risks to Corporate Board to consider whether they should be highlighted in the SIC		31.3.05
3	Monitoring Officer Assurance Statement re Strategic Risks produced		30.4.06
4	S151 Officer produce an Assurance Statement to highlight any financial issues that need to be covered in the SIC		30.4.06
5	Head of Assurance produce "head of internal audit" annual report commenting on the effectiveness of the internal control framework		30.4.06
6	First draft of the SIC and all supporting documentation	Corporate Board	31.5.06
7	Statement of Accounts prepared	Corporate Board	31.5.06
8	Review of SIC and all supporting documentation	Governance and Audit Committee	30.6.06
9	Review of Statement of Accounts	Governance and Audit Committee	30.6.06
10	Statement of Accounts and signed SIC completed	Council	31.7.06

Statement of Internal Control – Head of Service Assurance Statement

Regulation 4 of the Accounts and Audit Regulations 2003 requires the Council to publish a Statement of Internal Control (SIC). The SIC must be completed annually and must be signed by the Leader and Chief Executive. In summary the SIC is a statement of assurance to the effect that:

- the Council has an effective Internal Control Framework (ICF) in place
- the ICF has been reviewed in the preceding year. (It must be reviewed annually)
- that any weaknesses that have been identified in the ICF are being dealt with through an appropriate action plan.

Each Head of Service is responsible for delivering the objectives set out in their service plan. Heads of Service are responsible for identifying and managing the risks that may affect delivery of service objectives. This work includes monitoring the effectiveness of controls put in place to mitigate the risks and carrying out remedial action where controls are weak or not in place.

Each Head of Service is required to assist the preparation of the SIC for the Council by providing an assurance statement for the internal control framework within their service. Taken together the assurance statements from the Heads of Service will form a key part of the evidence that supports the signing of the SIC by the Leader and Chief Executive.

An outline recommended Statement of Assurance is attached.

Statement of Assurance forService

1	<p>Statutory obligations</p> <p>The Head ofService has identified all principal statutory obligations and these are identified in theService Plan. The Service Plan clearly sets out how the statutory obligations will be delivered.</p>	
2	<p>Service Risk Register</p> <p>The Head ofService has identified all risks that may affect the delivery of the service plan objectives. A formal annual review of the risk register was carried out, in conjunction with the Council's Risk Manager. In addition the service SMT reviewed the register each quarter. A copy of the Risk Register is attached</p>	
3	<p>Internal Controls</p> <p>The Head of Service has identified controls that are designed to mitigate the risks identified in 2 above. The Head ofService has assigned responsibility for the effective operation of each control to a nominated officer. The Head ofService has, through the 1.2.1 process, obtained assurance and evidence from each nominated officer that the controls have been tested and are operating effectively. A tick list of controls / indicators designed to evidence the operation of the controls is attached at Schedule A.</p>	
4	<p>Control Weaknesses</p> <p>The Head ofService has identified risks that are considered to be significant (Red) and that do not at present have effective controls to mitigate the level of risk. The Head ofService has put in place action plans to provide effective controls going forwards where resources allow. A list of the significant risks outstanding forService is attached at Schedule B. This includes outstanding resource requirements to provide required controls.</p> <p>The Head ofService has through 1.2.1's and the Service Management Team, ensured continuous review of the progress of action plans. Where action plans have fallen behind schedule the Corporate Director has been informed</p> <p>Where resources are not available to deliver the required controls the Corporate Director has been informed.</p>	
5	<p>Major Projects</p> <p>A risk register and action plan has been prepared for all major projects. The Corporate Board has been kept up to date on all issues relating to the risks to the delivery of each project</p>	

Statement of Assurance forService

<p>6</p>	<p>Overall Assurance from Head of Service</p> <p>In my opinion the internal control framework of theservice is soundly based. All significant risks to the service objectives have been identified and controls are in place to mitigate those risks. The exceptions to this are listed in schedule B which also outlines progress towards implementing outstanding controls.</p> <p>Signed byHead of.....Service</p> <p>Date</p>	
<p>7</p>	<p>Corporate Director Review</p> <p>I have reviewed the processes set out above with the Head of on an ongoing basis during the year both at 1.2.1's and at Service Group Management Team meetings.</p> <p>I agree with the opinion of the Head ofService set out in 6 above.</p> <p>Where actions to remedy weaknesses have fallen behind schedule, or resources available to deliver effective controls are inadequate I have drawn this to the attention of Corporate Board and the relevant portfolio holder.</p> <p>Signed byCorporate Director</p> <p>Date</p>	
<p>8</p>	<p>Portfolio Holder Review</p> <p>I have reviewed the statements contained above and the Service Risk Register and Action Plan</p> <p>Signed byPortfolio Holder</p> <p>Date</p>	