

<b>REPORT TO</b>	Leader Meeting Council Resources Overview and Scrutiny Commission Corporate Management Team General Purposes Committee
<b>DATE</b>	7 June / 12 June / 15 June / 29 June 2006
<b>DEPARTMENT</b>	Department of Corporate Policy and Improvement
<b>REPORTING OFFICER</b>	Corporate Improvement Officer (Governance) <i>(Miss Andrea Hirst-Gee)</i>
<b>SUBJECT</b>	Statement on Internal Control 2005/2006
<b>WARD/S AFFECTED</b>	All
<b>FORWARD PLAN REF</b>	N/A

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## **1.0 PURPOSE OF REPORT**

- 1.1 The purpose of this report is to seek comment on (by CMT and CRO&SC) and approval of (by the Leader, Chief Executive and General Purposes) the Statement on Internal Control (SIC) 2005/2006 (attached as Appendix D), which looks back on the internal control framework in place for the year ending 31 March 2006.

## **2.0 RECOMMENDATION**

- 2.1 The Leader and the Chief Executive, as the Council's most senior member and officer respectively sign the SIC 2005/2006 as evidence that they approve it.
- 2.2 The Council Resources Overview and Scrutiny Commission, acting as the Council's audit committee, provides a critical review of the SIC, its supporting documentation and the assurances given in accordance with statutory guidance.
- 2.3 CMT approves the SIC 2005/2006 to go forward to General Purposes Committee for approval and publication with the Annual Statement of Accounts.
- 2.4 General Purposes approve the SIC 2005/2006 for publication with the Council's Annual Statement of Accounts.

## **3.0 RECOMMENDED REASON FOR DECISION**

- 3.1 In accordance with the Accounts and Audit Regulations 2003 (amended 2006), the Council must produce a SIC in a recommended format, signed by the Leader and Chief Executive, and reviewed by the audit committee, and append it to the Annual Statement of Accounts, by the statutory deadline for approval of 30 June each year.

#### **4.0 ALTERNATIVE OPTION CONSIDERED & RECOMMENDED FOR REJECTION**

4.1 The alternative is to not produce a SIC, in contravention of statutory requirements.

#### **5.0 THE STATEMENT ON INTERNAL CONTROL**

5.1 A Statement on Internal Control (SIC) is a public assurance that a local authority has a sound internal control framework, designed to help manage and control risks to the achievement of its objectives. The SIC should not be seen as a purely financial requirement but as an important public expression of what a local authority has done to put in place good business practice, high standards of conduct and sound governance. The SIC can also be a prime source of evidence for the Comprehensive Performance Assessment about how well the local authority manages its resources. The requirement for the SIC to be signed by the Leader of the Council and the Chief Executive reflects the importance that is placed upon it. The SIC both comments on and is an integral part of the Council's internal control framework.

5.2 In common with most local authorities, the Council already has an established internal control framework in place. The SIC requires the Council to formally consider what controls are needed to safeguard against the most significant risks to the organisation and to gain assurance, based on evidence, that these controls are operating effectively, or where they are not, to identify areas for improvement.

5.3 In compiling the SIC the Council follows the requirements of the CIPFA Finance Advisory Network (FAN) publication 'The Statement on Internal Control - Meeting the Requirements of the Accounts and Audit Regulations 2003 – a Rough Guide for Practitioners' (known as the 'Rough Guide') which is the definitive guidance on the SIC and which was last updated in February 2006. The Council is a member of the CIPFA FAN and the Corporate Improvement Officer (Governance) takes part in the SIC Practitioner seminars that it organises annually, the outcomes of which feed into the Rough Guide.

5.4 In addition to setting the context for the SIC and collating practitioner feedback and best practice examples, the Rough Guide focuses on two key areas: compiling the SIC itself and the assurance gathering process that supports the SIC.

5.5 The Rough Guide advises that there should be a management group or equivalent who are given ultimate responsibility for drafting the SIC, evaluating assurances and supporting evidence. In fulfilment of this requirement the SIC compilation and assurances are co-ordinated by the Corporate Improvement Officer (Governance) in the Department of Corporate Policy and Improvement (DCPI), with support from a number of officers in DCPI and the Department of Resources (DR) including the Head of Legal and Democratic, the Chief Solicitor (as Monitoring Officer), the Audit Manager and the Strategic Policy Officer.

5.6 The SIC for 2005/2006 is the third SIC submitted by the Council. As part of the process of continuous improvement this year's SIC has been compiled using the Teignbridge 'SIC Note' electronic database, which is endorsed by the CIPFA FAN. Using a series of questions the database enables the Council to illustrate its compliance with each of the 8 objectives of the SIC assurance gathering process, as illustrated in Appendix A Figure 1 extracted from the Rough Guide.

- 5.7 If a question is answered positively the 'SIC Note' database defaults to an Evidence Schedule to be completed in support of that answer. If a question is answered negatively, the database defaults to an action plan of issues to be picked up.
- 5.8 Appendix B shows the database report of current overall compliance. The database Action Plan forms the basis of the issues and actions reported in Section 5 of the SIC 2005/2006. The majority of the evidence required is now held electronically and hyperlinked to the database and will ultimately be hyperlinked to the SIC itself. It is anticipated that eventually the database, the SIC and the underlying evidence will all be available and accessible on-line to relevant officers and members including the Governance Panel.
- 5.9 Appendix C is an extract from the Rough Guide illustrating in Flowchart 1 a best practice framework for the SIC. It shows 6 key sources of assurance for the SIC: performance management: internal audit: external audit: assurances by managers: risk management: other sources of assurance.
- 5.10 The Council's approach ensures that there are sound practices in place to pick up assurances and contributions from the majority of these 6 sources, through the involvement of the officers listed in para 5.5 above. The Council could introduce improved arrangements in respect of assurance from managers and other sources and a proposal to do this is outlined below.
- 5.11 The Rough Guide includes the requirement to provide an independent challenge to the SIC. The Rough Guide is explicit that to ensure this challenge is independent and therefore adds value, it cannot be carried out by any of the named sources of assurance referred to in Appendix C and above in para 5.9. In fact, the Rough Guide explicitly gives this responsibility to a Scrutiny or Audit Committee.
- 5.12 The Council Resources Overview and Scrutiny Commission acts as the Council's Audit Committee (Governance Panel from June 2006 subject to approval). Members received training in 2005/2006 on their responsibilities in respect of the SIC and considered the SIC 2004/2005 in this capacity. Further training is planned for 2006/2007 to enable them to carry out a more rigorous review of the compilation and assurance processes in accordance with the Rough Guide requirements.
- 5.13 To assist with this, a range of other improvements are proposed for 2006/2007. The Corporate Improvement Officer (Governance) with support from relevant officers, will facilitate a half year review and update of the SIC by the Governance Panel. This will include a review of any evidence received after the submission deadline for the SIC but still pertinent to the period under review (eg the Ombudsman's Annual Letter published annually in July / August). It will also include a review of progress on delivering the actions listed in the action plan in Section 5 of the SIC.
- 5.14 There is a well-established process already in place for gathering assurances from traditional sources such as external audit, internal audit, performance management and risk management. The Governance Panel will be asked to develop a process to ensure that there is more focus on gathering assurances from other sources including managers, best value reviews, post implementation reviews etc.
- 5.15 In their 'Use of Resources – Audit Score Feedback 2005/2006' report issued in March 2006 the Audit Commission noted that 'the Council has good arrangements in place for compiling the SIC, including an assurance framework that provides members with information to support the SIC.' This element of the assessment was

scored as a 3 (defined as consistently above minimum requirements – performing well). However, the improvements introduced in 2005/2006 and the developments planned for 2006/2007 should enhance the already good arrangements.

## 6.0 CONCLUSIONS

- 6.1 The Statement on Internal Control has been compiled in accordance with the requirements of the Accounts and Audit Regulations 2003 (amended 2006). The Council has been judged to have good arrangements in place for compiling the SIC and the assurances that support it. Further improvements are planned, in particular a larger role for the Governance Panel in developing the assurance processes and providing the independent review of the SIC as required by the Rough Guide.
- 6.2 The SIC 2005/2006 is a comprehensive document, compiled with input from a range of officers across the Council, and brought together using the SIC Note database for the first time this year. As a result assurance can be given that there is evidence to support all of the positive assertions in the SIC and that actions have been put in place to address any issues of concern outlined in Section 5 of the SIC.

Background Papers: an electronic copy of the 'Rough Guide to the SIC' is available from the officer named below on request.

**OFFICER CONTACT:** Please contact Andrea Hirst-Gee if you require any further information on the contents of this report. The officer can be contacted at Crescent Gardens, by telephone on 556113 or by email [andrea.hirst-gee@harrogate.gov.uk](mailto:andrea.hirst-gee@harrogate.gov.uk)

### SUSTAINABILITY ASSESSMENT/POLICY CONSIDERATIONS

		Implications are		
		Positive	Neutral	Negative
A	Economy		✓	
B	Environment		✓	
C	Social Equity		✓	
(i)	General		✓	
(ii)	Customer Care/People with Disabilities		✓	
(iii)	Health Implications		✓	
D	Crime and Disorder Implications		✓	

If all comments lie within the shaded areas, the proposal is sustainable.

### KEY WORDS:

