

Report Title: **Statement on Internal Control 2005/06**

Report of: **Director of Finance**

1. Purpose

1.1 To inform Members of the requirements of the Statement of Internal Control and provide an initial draft statement for approval.

2. Recommendations

2.1 That Members approve the initial draft Statement of Internal Control for 2005/06.

Report Authorised by: Andrew Travers
Director of Finance

Contact Officer: Anne Woods, Head of Audit and Risk Management

Tel: 020 8489 5973

Email: anne.woods@haringey.gov.uk

3. Reasons for any change in policy or for new policy development (if applicable)

3.1 None

4. Local Government (Access to Information) Act 1985

4.1 List of background documents:

The following background documents were used in production of this report:

- Accounts and Audit Regulations 2003
- 2005 Annual Audit and Inspection Letter
- CIPFA Finance Advisory Network - guidance for practitioners on internal control

5. Background

- 5.1 The Accounts and Audit Regulations 2003 established requirements relating to systems of internal control, and the review and reporting on those systems. One of the requirements is that every local authority must publish a Statement on Internal Control (SIC) with the financial statements of the Council from 2003/04 onwards.
- 5.2 The scope of internal control covers the whole range of the Council's activities and includes those controls which are designed to ensure that:
- The council's policies are put into practice;
 - The organisation's values are met;
 - Laws and regulations are complied with;
 - Required processes are adhered to;
 - Financial statements and other published information are accurate and reliable;
 - Resources are managed efficiently and effectively; and
 - High quality services are delivered efficiently and effectively.
- 5.3 Having established a system of control to manage these processes, the Council needs to put processes in place to maintain it and keep it up to date. The SIC guidance suggests that these processes are reviewed at least once a year.
- 5.4 Haringey's review processes for the SIC are aligned with those which consider the council's response to the Use of Resources judgement, as many of the elements contained within this reflect internal control issues. The officer group reviewing these processes has been meeting on a monthly basis during 2005/06.

6 The Statement on Internal Control

- 6.1 A Statement on Internal Control represents the end result of the review of internal control, explains the nature of control and is a broad reflection of the whole governance of the authority. The SIC is designed to:
- identify the key elements of the internal control environment;
 - state how the main risks associated with the internal control environment are identified and managed;
 - state how and whether assurance is obtained on the management of risks identified; and
 - provide an action plan for addressing any outstanding internal control issues.
- 6.2 A pro forma SIC has been devised by the Chartered Institute of Public Finance and Accountancy (CIPFA) for use by local authorities. This provides the key headings that should be included in the SIC, along with indications of what might be covered. It does not, however, provide standard wording for the sections dealing with the internal control environment and the review of its effectiveness. This will be dependent on the risks associated with each individual authority.
- 6.3 The Audit Commission reviews the SIC as part of its annual audit. In its 2004/05 Annual Audit and Inspection Letter, the Audit Commission stated that there 'are good arrangements for preparing the Statement on Internal Control'.

7 Approval and Timetable

- 7.1 In order to comply with the statutory reporting deadlines, the SIC for 2005/06 has to be approved with the Statement of Accounts at General Purposes Committee on 29th June 2006.
- 7.2 Prior to its final approval, the Council needs to demonstrate that the SIC is not restricted to financial considerations and has been reviewed and agreed by relevant senior managers across the authority and an appropriate member body, independent of the General Purposes Committee.
- 7.3 The draft SIC is provided at Appendix A and this has been produced in line with the guidance issued by the CIPFA Finance Advisory Network. The draft SIC was approved in principle by CEMB on 7/3/06. In support of the SIC, a matrix is attached at Appendix B. This identifies the key elements of the council's internal control environment and how the council gains assurance and where the evidence to support the assurance can be found.
- 7.4 The matrix also identifies where any gaps in assurance exist and action is required to address these gaps. At the present time, there are still some outstanding issues within the matrix which need to be clarified and these are identified as such. However, it is anticipated that these will not be classed as significant and therefore required to be included within the SIC. Appendix C is the Management Assurance Statement, covering 2005/06, which all Director's will be required to complete.
- 7.5 It is acknowledged that the draft SIC is presented for review prior to both the financial year end and the Audit Commission's audit of the accounts. It is anticipated that any significant internal control issues which either arise between now and the end of March, or are raised by the Audit Commission, can included in the SIC and submitted for final member approval before the closure of the statutory audit period on 30th September 2006.