

REPORT OF THE STRATEGIC DIRECTOR  
TO THE AUDIT AND GOVERNANCE COMMITTEE  
27 JUNE 2007

**The Statement on Internal Control**

**1. Introduction and Report Summary**

- 1.1. The Council has a statutory duty to conduct a review of its internal control system at least once a year. In addition it must publish a Statement on Internal Control (or 'SIC') with its annual financial statements. These duties are contained within the Accounts and Audit Regulations 2003.
- 1.2. This report invites the Audit and Governance Committee to critically review the SIC (which is appended to this report) and make recommendations on improvements to the SIC, any supporting documentation and the compilation process.
- 1.3. The Contact Officer for this report is Steve Bishop, Strategic Director and Chief Finance Officer (01235 540332).

**2. Recommendations**

*Members are asked to:*

- (a) *Critically review the Statement on Internal Control (SIC) and either approve the SIC; or, identify any changes needed to the SIC, the supporting documentation and the process of compiling the SIC.*
- (b) *Confirm that the system of internal audit appears to be effective*

**3. Relationship with the Council's Vision, Strategies and Policies**

- (a) This report supports the entire Vision inasmuch as the internal control environment safeguards general regulatory compliance, delivery of the Council's aims and achievement of value for money.
- (b) This report does not contradict any existing Council strategies or policies. It strengthens corporate governance arrangements.

**4. The Purpose of the SIC**

- 4.1. Local authorities are now required to produce a SIC at least annually. By requiring the authority to review its internal control system before compiling the SIC document, it is hoped that this process will provide added assurance on the effectiveness of the internal controls. In addition, the process should improve corporate governance arrangements and promote internal controls generally.
- 4.2. The review and compilation process must not be seen as a financial management exercise. Instead, it is hoped that authorities will adopt a corporate approach to the process. To reflect this corporate ownership the SIC must be signed by the Leader and Chief Executive.

- 4.3. Furthermore, the SIC and its supporting documentation should be critically reviewed by a body which is independent of the compilation process.

5. **The Vale's Approach**

- 5.1. Last year the review of the Council's internal control system was extended to involve more staff in order to provide the corporate rigour required by the Regulations. The Chief Executive, Monitoring Officer and Chief Finance Officer were content that the SIC is an accurate reflection of the internal control environment.
- 5.2. The Internal Audit section was involved in the compilation of the SIC and validated it in light of their assessment of the internal control system, arising from Audit Plan reviews during the preceding year.
- 5.3. This year there have not been fundamental changes in the internal control environment. The SIC was reviewed and updated by some minor amendments. Otherwise it is still sound.
- 5.4. In order to meet the requirement for an independent critical review, the SIC is now being submitted to the Audit and Governance Committee for critical review and approval. Once approved it will be incorporated in the draft 2006/07 Statement of Accounts, which is being considered separately on the agenda.

6. **Effectiveness of Internal Audit**

- 6.1. The Accounts and Audit Regulations were amended last year. A new requirement was introduced for Members to consider the effectiveness of internal audit arrangements as part of the wider review of the internal control system. This emphasises the importance of internal audit in maintaining a strong control environment.
- 6.2. The Scrutiny Committee has closely monitored the performance of the Internal Audit service in the past and this role will be taken up by the Audit and Governance Committee. The Committee is asked to confirm the effectiveness of the Council's system of internal audit.
- 6.3. In order to confirm the effectiveness the Committee may wish to take into account the following:
- Any previous knowledge which individual Members may have from previous involvement on the Scrutiny Committee.
  - The continuing reliance placed on the work of the Internal Audit Section by the external auditor (the Audit Commission)
  - Adherence to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom
  - Ongoing review by the Strategic Director (Chief Finance Officer)
  - Generally high satisfaction ratings from service managers in audit feedback questionnaires

7. **Conclusion**

- 7.1. The Committee is requested to consider the SIC, the supporting documentation referred to in the SIC, the process used to review the internal control system and the compilation process.
- 7.2. Having considered the documentation and the processes involved, the Committee is invited to approve the SIC or indicate whether any changes are needed to the SIC or the associated processes.

7.3. Furthermore, the Committee is requested to confirm that the system of internal audit appears to be effective.

STEVE BISHOP  
STRATEGIC DIRECTOR

**Background Papers:** Consultation responses to the Statement of Internal Control