

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

28 JUNE 2007

REPORT OF THE DIRECTOR OF FINANCE

STATEMENT ON INTERNAL CONTROL

1. EXECUTIVE SUMMARY

- 1.1. Regulation 4 of the Accounts and Audit Regulations 2003, as amended in 2006, specifies that a Statement on Internal Control (SIC) should be published together with the financial statements.

2. BACKGROUND

- 2.1. Regulation 4 of the Accounts and Audit Regulations 2003 requires the publication of a Statement of Internal Control (SIC) with the Financial Statements of a local authority. This requirement is much wider than finance, as it requires a review of the whole system of internal controls across the Authority. The regulation was amended in 2006 and now also requires the effectiveness of the system of internal audit to be reviewed and the findings included within the SIC and considered by a committee of the relevant body.
- 2.2. CIPFA has produced guidance on meeting the requirements of the regulations in a publication 'Statement on Internal Control – Meeting the Requirements of the Accounts and Audit Regulations 2003' which is currently being updated. This provides guidance on the internal control and risk management process to comply with the regulation and establishes proper practice for the production of a Statement on Internal Control. Wirral Council has complied fully with this best practice guidance.
- 2.3. Internal control and risk management are increasingly recognised as important elements of good corporate governance which will enhance public confidence in local government. The inclusion of a mandatory SIC in the Accounts and Audit Regulations raises the status of this concept.
- 2.4. The system of internal control includes: -
 - i. Control mechanisms.
 - ii. Information and communication procedures.
 - iii. Monitoring the effectiveness of internal controls.

It includes controls to ensure: -

- a. Policies are put into practice.
- b. Values are met.
- c. Laws and regulations are complied with.
- d. Required processes are followed.
- e. Financial statements and other published information are accurate and reliable.
- f. Human, financial and other resources are managed efficiently and effectively.

2.5. It is necessary to assess which controls are key in mitigating the significant risks of achieving the principal objectives of the Council. By obtaining assurance on the operation of these controls, the Authority is able to draw conclusions on the effectiveness of the system of internal control and identify areas where improvement is needed.

2.6. There are several sources of assurance for Members in the quality of internal control:

a. Management

Directors and Management should routinely monitor controls and provide annual assurance statements regarding their effectiveness as a part of risk management. Risk management is well established in Wirral but is continually developing.

b. Internal Audit

Internal Audit can provide independent and objective assurance across the whole of the Authority. The CIPFA Code of Practice for Internal Audit in local government requires the Chief Internal Auditor to prepare an annual audit report on the overall adequacy and effectiveness of the internal control environment, including details of weaknesses. This report is the subject of a separate report on this Committee agenda.

The Council can satisfy itself that Internal Audit is operating in accordance with the standard of the code. In Wirral, Internal Audit has been assessed at the maximum rating in the CPA review by the Audit Commission. The Section has also recently been reviewed by the Audit Commission who concluded that “the Internal Audit section provides an effective service and makes a good contribution to the system of Internal Control through the work it undertakes”. It is reasonable therefore for the Council to rely on the work of Internal Audit.

c. External Audit

External Audit provides some assurance but their reports are recognised as not covering the full range of activities and they rely significantly on Internal Audit's effectiveness.

d. Other Inspectorates

Similarly, other review bodies, such as OFSTED, Benefits Fraud Inspectorate (BFI) and the Health and Safety Inspectorate provide some assurance.

2.7. Regulation 6 includes a new requirement that bodies 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, as part of the consideration of the system of internal control referred to in Regulation 4. The Deputy Director of Finance has reviewed the effectiveness of the system of internal audit and has prepared a separate report elsewhere on this agenda.

2.8. A Statement on Internal Control for 2006/07 has been prepared that includes a comment regarding the effectiveness of the system of internal audit following a review. This is attached at Appendix 1 and should be signed by the Chief Executive and Leader of the Council and included with the Statement of Accounts.

3. FINANCIAL IMPLICATIONS

3.1. There are no financial implications arising directly from this report.

4. STAFFING IMPLICATIONS

4.1. There are no staffing implications in this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. There are none arising directly from this report.

6. HUMAN RIGHTS IMPLICATIONS

6.1. There are none arising directly from this report.

7. COMMUNITY SAFETY IMPLICATIONS

7.1. There are no specific implications arising from this report.

8. LOCAL MEMBER SUPPORT IMPLICATIONS

8.1. There are no specific implications for any Member or Ward.

9. LOCAL AGENDA 21 IMPLICATIONS

9.1. There are no specific implications arising from this report.

10. PLANNING IMPLICATIONS

10.1. There are no specific implications arising from this report.

11. BACKGROUND PAPERS

11.1. Annual Internal Audit Report 2006/07

11.2. CIPFA/SOLACE Guidance Notes and Framework "Corporate Governance – A keystone for Community Governance".

11.3. Accounts and Audit Regulations (England) 2006.

11.4. CIPFA Code of Practice for Internal Audit in Local Government 2006.

12. RECOMMENDATION

12.1. That the Statement on Internal Control for 2006/07 be signed by the Chief Executive and Leader of the Council.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/129/07