

# PAPER E

Committee : **AUDIT COMMITTEE**

Date : **12 JANUARY 2006**

Title : **REVIEW OF THE STATEMENT ON INTERNAL CONTROL**

**REPORT OF THE COMPLIANCE & RISK MANAGER**

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## REASON FOR AUDIT COMMITTEE CONSIDERATION

1. The Statement on Internal Control (SIC) should be seen as a matter of significant interest by the Audit Committee, as Internal Control is without question, one of the Committee's main concerns. The Committee has been charged with reviewing the Statement which is compiled by senior management as part of the year end accounting process, and it therefore has a significant interest in the way in which the SIC is produced, the quality of its assertions, and the extent to which it provides assurance that the Council's control arrangements are operating satisfactorily.

## ACTION REQUIRED BY THE COMMITTEE

- i. To consider the findings of the Audit Commission's review of the SIC;
- ii. To seek confirmation from officers that the improvements recommended by the review will be implemented;
- iii. To make further recommendations for improvements if they believe it to be necessary; and
- iv. To note that the review makes two specific references to the role of the Audit Committee in relation to the SIC

## BACKGROUND

2. The report produced by the Audit Commission presents an ideal opportunity to improve the way in which the SIC process works in future. The evolution of the SIC is still in its early development. Having provided a statement on a 'trial' basis in respect of 2003-04, local authorities have been *required* to produce a SIC with effect from the financial year 2004-05. The SIC which members reviewed at their meeting on 22 September was in fact the first mandatory statement that this Council has made. It is fair to say therefore that the SIC could be seen as a 'work in progress' and that the Council will, if it implements the findings of the Audit Commission report, continue to improve the quality of the SIC and the processes which are contributory factors to that quality.

3. The Commission's report is self-explanatory. The Audit Commission have carried out an independent review of the Council's SIC process, comparing it with guidance issued by Cipfa, and made recommendations for improvement. The recommendations are reproduced as an action plan and the Council has in its response (See Appendix A), identified the appropriate officers responsible and the timescales to achieve those actions.
4. In addition to implementing those recommendations, officers have developed a timetable (in line with recommendation R9) for a more robust SIC process with appropriate timescales built into the process. This, for example, allows for a more rigorous review of the SIC by the Audit Committee, with time allowed for any issues *before* the Committee formally adopts it. This (as the review concludes) was not satisfactorily accomplished this year and is a relatively easy improvement to make. The timetable also includes provision for the training of the Audit Committee in the SIC process, timed to take place approximately one month before it is asked to review the SIC for 2005-06.
5. The Committee will also note that as well as its general interest in the SIC, the review makes two specific recommendations in relation to the Committee's direct involvement :  
  
R8 The Audit Committee should take a leading role in reviewing and challenging the assertions implicit in the statement of internal control and should take steps to satisfy itself on the adequacy of the underlying information.  
  
R10 Responsibility for tracking progress on the delivery of action plans should be assigned to the Audit Committee.
6. In its response, the Council has assigned these responsibilities to those officers who manage the Committee's business.

#### RELEVANT PLANS, POLICIES, STRATEGIES AND PERFORMANCE INDICATORS

7. There are no relevant plans, policies or strategies in relation to the SIC.

#### CONSULTATION PROCESS

8. Officers who have been assigned responsibility for implementing the reports recommendations have been consulted.

#### FINANCIAL, LEGAL, CRIME AND DISORDER IMPLICATIONS

9. The Statement on Internal Control is a requirement of the Accounts & Audit Regulations 2003.

#### APPENDICES ATTACHED

10. Appendix A – Action Plan – showing responsibilities assigned to officers, and agreed deadlines.

11. [Appendix B – Audit Commission Report ‘ Review of the Statement on Internal Control’ – Audit 2004/05.](#)

**BACKGROUND PAPERS USED IN THE PREPARATION OF THIS REPORT**

12. The Statement on Internal Control - Meeting the requirements of the Accounts & Audit Regulations 2003. (Cipfa)

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## Isle of Wight Council – Statement on Internal Control - Appendix A – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Corporate and service objectives should be used as the starting point for preparing the statement on internal control.	H	Central Accountancy Services Manager and all HOS	Yes	Guidance on preparing the SIC will include advice that objectives should be the starting point for its preparation.	April 2005
7	R2 All service areas should identify all the risks to achieving both their service objectives and the relevant corporate objectives.	H	Insurance & risk Manager and all HOS	Yes	This is already a requirement of both service planning and risk procedures. Greater consistency across all Council activities is required.	April 2005
7	R3 All risks to service areas should be included in the risk register, along with the actual controls to mitigate the risks.	H	Insurance & Risk Manager and all HOS	Yes	Again this is already a requirement but greater consistency is needed.	April 2005

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7	R4 All services should receive advice and assistance in risk identification.	M	Insurance & Risk Manager		Support to services on risk is provided by the Insurance & Risk staff and Internal Audit. This has been supplemented by external support in the past. Areas within the Council where services and management have failed to engage in risk management need to be identified and addressed.	February 2006 (identified) and May 2006 (addressed)
8	R5 Risk registers should be regularly updated and reviewed at least annually as part of service planning.	H	All HOS	Yes (but already addressed)	Regular updating of service risk registers has been facilitated by the designation of risk champions within service departments – an initiative which has been introduced since 2004-05. It is expected that this will deliver a significant improvement on this issue, but again a consistent performance across all service areas is needed.	No further action needed except to ensure a consistent performance.
8	R6 Once key controls are identified, assurances should be obtained that these controls are working effectively.	H	Assistant Chief Executive & Central Accountancy Services Manager	Yes	The Risk Management Group, led by an Assistant Chief Executive, needs to play an important role in ensuring that key controls are (a) identified and (b) operating effectively.	April /May 2006 (as part of an improved SIC preparation process)

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8	R7 Moderation of the self assessment process should be undertaken prior to the preparation of the statement on internal control.	H	Central Accountancy Services Manager	Yes	Moderation will be built into the improved procedure for preparing the SIC. The Audit Committee, the Risk Management Group and the Internal Audit will all play a part in independently challenging the assertions made in the SIC where appropriate.	April /May 2006 (as part of an improved SIC preparation process)
8	R8 The Audit Committee should take a leading role in reviewing and challenging the assertions implicit in the statement of internal control and should take steps to satisfy itself on the adequacy of the underlying information.	H	Overview & Scrutiny Team Leader & Chief Internal Auditor	Yes	See previous comment. Also there is an intention to deliver training to the Audit Committee in relation to its role in the SIC process. This will take place ahead of next year's SIC preparation and approval process.	April /may 2006
8	R9 A full action plan is developed for all weaknesses identified.	H	Central Accountancy Services Manager	Yes	A revised timetable with required improvements has already been constructed. This includes for example sufficient time allowed for a rigorous scrutiny and challenge of the SIC. It also includes actions that will broaden the ownership of the SIC amongst senior management and members.	Complete

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8	R10 Responsibility for tracking progress on the delivery of action plans should be assigned to the Audit Committee.	H	Overview & Scrutiny team Leader, Central Accountancy Services Manger and Chief Internal Auditor	Yes	Where action plans have been developed to address weaknesses in Internal Control, the Audit Committee can play a role in monitoring their progress. This need to be built into the Committee's workplan.	January 2006