

Committee: **REPORT TO AUDIT AND PERFORMANCE COMMITTEE**  
Date: **29 MAY 2007**  
Title: **DRAFT STATEMENT ON INTERNAL CONTROL 2006-07**  
**REPORT OF THE PROGRAMME LEAD FOR COMPLIANCE**

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## PURPOSE

1. This report introduces the outcomes of the assurance process and the draft Statement on Internal Control for 2006-07. **The Committee should note that in the interests of giving members more time to contribute, the draft Statement is very much a “work in progress”, and will require further development before the Committee sees it again on 21 June.**

## ACTIONS REQUIRED BY THE COMMITTEE

- (a) To consider the draft Statement on Internal Control (attached Appendix A).
- (b) To consider whether the draft Statement accurately reflects the Council's internal control environment.
- (c) To consider and if appropriate make recommendations for amendment to the Statement and/or the issues to be published in the 2006-07 Statement.

## BACKGROUND

2. The Council has a statutory requirement to provide a Statement on Internal Control (SIC) which it must publish with its annual accounts. The Statement for 2006-07 will be the third one which has been mandatory. Following recommendations for improvement two years ago, the Council's process last year was commended by the Audit Commission as 'notable practice'. The Council's process intentionally follows best practice recommended by CIPFA (see Appendix B).
3. The key process for delivering the SIC is an 'assurance framework' which requires all Heads of Service, and some statutory officers, to complete an assurance declaration. Essentially, each Head of Service is asked to confirm that effective internal control has operated throughout the year in their service areas. There is a (locally) prescribed template for them to do this which covers all the components of internal control (eg risk management, financial procedures, HR rules, business continuity). If Heads of Service cannot confirm that internal control has operated effectively, then they are asked to identify the weakness, its cause and planned action to address the problem.
4. Only 'significant' control issues (and not every one) identified in the assurance process need to be reported in the final SIC. The way this is delivered is that the preliminary results of the assurance framework are moderated by:

- (a) A review by the Council's Chief Internal Auditor to ensure that it reflects his perception of the control environment
  - (b) A cross-Council group of middle managers, including those who are also risk champions who represent their respective Directorates on the Risk Management Group.
  - (c) Directors Team which has an opportunity (at two separate meetings) to consider the draft content of the SIC – in particular the nature of the weaknesses which are being highlighted.
5. These forums give the opportunity to contribute to the draft SIC now being presented with this report. As already mentioned the draft at Appendix A still requires further development before the Committee reviews it again at its meeting on 21 June. The Committee should note that it is unlikely that further issues will emerge before then (as the assurance process is now almost complete). In the meantime, the Appendix will be enhanced so that it includes comprehensive details of Action Plans, including key milestones so that they can be monitored.
6. The Committee will recall that last year it was given a development session on the processes and purposes of the SIC. This covered:
- the statutory requirement for a statement;
  - the features of sound internal control;
  - the linkages to other requirements such as Key Lines of Enquiry; and
  - the Committee's role in the process.
7. The Committee plays a valuable role in the development of the SIC, through its continual oversight of the Council's control environment and its understanding of internal control issues. These give the Committee an almost unique ability to validate the Statement. The Committee can challenge the content of the Statement if it believes that there are material omissions from it.
8. The Committee needs to seek confirmation that:
- (i) the assurance process has been conducted properly and that it accords with Cipfa's recommended practice;
  - (ii) the Statement as drafted represents a comprehensive assessment of internal control issues within the Council;
  - (iii) the Statement has been subject to adequate review by officers; and
  - (iv) the Statement and the issues it highlights would be 'recognisable' by inspectors and the Audit Commission.

## STRATEGIC CONTEXT

9. The publication of a Statement of Internal Control is a statutory requirement. It nevertheless, provides a valuable opportunity for the Council to both

acknowledge the need for improvement and to demonstrate that it has robust action plans in place to deliver that improvement.

### LEGAL IMPLICATIONS

10. The Council has a statutory duty (Accounts and Audit Regulations 2003) to obtain assurances that its system of internal controls operate effectively and to publish a statement on the outcomes along with its annual accounts.

### FINANCIAL IMPLICATIONS

11. There are no direct financial implications associated with the Statement, although many of the actions required to address weaknesses in control will require investment and a re-direction of priorities and resources.

### RISK

12. Risk and its management are a significant component of the Council's control environment, and consequently the Statement is to a large extent, a reflection of the key risks facing the Council. The greatest risk of the Statement itself, however, is that it fails to identify an issue which materially threatens the achievement of the Council's objectives.

### APPENDICES

Appendix A: The Draft Statement On Internal Control 2006-07

Appendix B: Extract from Cipfa's 'Rough Guide to meeting the requirements of the Accounts and Audit Regulations 2003'

### BACKGROUND DOCUMENTS

1. The Statement on Internal Control – meeting the requirements of the Accounts and Audit Regulations 2003 – A Rough Guide for Practitioners (Cipfa's Finance Advisory Network)

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## WORK IN PROGRESS

## APPENDIX A

<b>DRAFT STATEMENT ON INTERNAL CONTROL 2006-07</b>				
No	Issue	Action Plans and Key Milestones	Lead Officer	Target Date for Completion
(i)	The Council needs to ensure that it is making adequate progress towards meeting its equality and diversity obligations	<p><b>Council's Comprehensive Equality Plan</b></p> <ul style="list-style-type: none"> <li>• Ensure Equality schemes are monitored, reviewed and actioned (October annually and ongoing)</li> <li>• Progress/action impact assessments for services and new/revised strategies and policies (30 June 2007 and ongoing)</li> <li>• Ensure progress/achievement of the Equality Standards for Local Government (Annual assessment – December 2008)</li> <li>• Continue equality and diversity awareness training for all staff (annually and ongoing)</li> </ul>	Diversity and OD Programme Manager	December 2008
(ii)	The Council needs to improve its ethical governance and the clarity of its decision making	<p><b>Implement action plan arising from ethical governance audit (including amended member officer protocol)</b></p> <ul style="list-style-type: none"> <li>• Improve profile and influence of Standards Committee ( )</li> <li>• Introduce new Code of Conduct ( )</li> <li>• Devise and carry out a programme of training for members and officers relating to ethical governance ( )</li> <li>• Rewrite constitution focusing on scheme of delegation in first stage ( )</li> <li>• Ensure effective communication and training ( )</li> </ul>	Interim Director of Legal and Democratic Services	

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No	Issue	Action Plans and Key Milestones	Lead Officer	Target Date for Completion
(iii)	The Council needs to adopt a more strategic approach to the procurement of supplies and services, which should include better options appraisal opportunities for aggregation, increased leverage, reviewing procedures and compliance with procurement regulations.	<ul style="list-style-type: none"> <li>• Review of all contracts underway</li> <li>• Capacity engaged to develop strategic approach</li> <li>• Authorisation levels reviewed and revised</li> <li>• Increased compliance testing</li> </ul>	Director of Customer Services	
(iv)	Risk Management processes and arrangements were continuing to develop during the year but were insufficiently embedded in the Council's strategic and operational management.	<p><b>Actions included in One Council/One Island (Theme 5)</b></p> <ul style="list-style-type: none"> <li>• Strategic, significant service risk and operational risk now being confirmed (June 2007)</li> <li>• Risk now considered by Directors Team, Service Board, Audit and Performance Committee and Cabinet (June 2007)</li> <li>• Risk in partnerships is being identified (September 2007)</li> <li>• Risk of key projects is being identified (September 2007)</li> <li>• Risk implications in decisions considered via call-over process (March 2007)</li> </ul>	Director of Children's Services	
(v)	Many of the Council's services had developed plans for maintaining continuity of operation in the event of disruption. Although these are now comprehensive, reliance on ICT and the provision of a recovery site remain outstanding.	<ul style="list-style-type: none"> <li>• All services covered by a business continuity plan</li> <li>• Provision made for significant investment to achieve ICT business continuity and business case developed</li> <li>• Recovery site identified</li> <li>• Testing of arrangements planned</li> </ul>	Director of Environment and Neighbourhoods	

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(vi)	The resilience and support of the Council's general ledger system mean that the Council's financial management is vulnerable.		Director of Finance	
(vii)	Improvements to the quality of the Council's data and intelligence information are required in order that it can direct its focus on performance improvements and use data intelligently when making decisions.	<p><b>Implement recommendations of Audit Commission</b></p> <ul style="list-style-type: none"> <li>• Data Quality Strategy and Policy adopted (March 2007)</li> <li>• Quality assurance reviews ( )</li> <li>• Data sharing protocol, including validation (April 2007)</li> <li>• Training on data quality skills (September 2007)</li> <li>• Further development of performance management framework (June 2007)</li> <li>• Senior management review of data accuracy (June 2007)</li> </ul>	Director of Children's Services	September 2007
(viii)	The Council experienced considerable change throughout the year involving changes at senior management level and in the configuration of responsibilities. This has caused challenging capacity issues in the interim.	<p><b>Actions included in One Council/One Island (Theme 3)</b></p> <ul style="list-style-type: none"> <li>• Council's senior management structure confirmed (May 2007)</li> <li>• Capacity strengthened (March – September 2007)</li> <li>• Interim management capacity engaged where necessary (March – September 2007)</li> <li>• Responsibilities at senior levels clarified (May 2007)</li> </ul>	Chief Executive	

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(ix)	The governance arrangements of key partnerships in which it is involved need to be understood and adequately documented.	<b>Action Plan Re Partnership Governance</b> <ul style="list-style-type: none"> <li>• Key partnerships identified (May 2007)</li> <li>• Governance of key partnerships assessed (May 2007)</li> <li>• Good governance guide produced (May 2007)</li> <li>• Partnership register developed (June 2007)</li> </ul>	Director of Community Services	
(x)	The Council's programme of change and the number of projects that need to be delivered, have exposed the Council's weaknesses in programme and project management.			
(xi)	The Council's achievement of its priorities, budget and its medium term financial strategy are dependant on its ability to achieve cost and efficiency savings and on its ability to manage unanticipated increases in demand for services.	<ul style="list-style-type: none"> <li>• Service boards identify budget problems (complete)</li> <li>• Star Chamber process anticipates future needs (complete and ongoing)</li> <li>• Medium Term Financial Strategy approved (March 2007)</li> <li>• Savings delivery plans developed (May 2007)</li> <li>• Capital programme managed through capital service boards (May 2007)</li> </ul>	Director of Finance	

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No	Issue	Action Plans and Key Milestones	Lead Officer	Target Date for Completion
(xii)	The condition of the Island's highway infrastructure and of its building stock continue to be of unsatisfactory standard, with both being subject to a significant maintenance backlog.	<ul style="list-style-type: none"> <li>• New Strategic AMP 2006/09 approved</li> <li>• AMP Maintenance Prioritisation Process</li> <li>• Capital repairs programme approved</li> <li>• New Capital Strategy 2006/09 identifies procedures to determine Principles for Sound Investment</li> <li>• Transport Asset Management Plan has been prepared.</li> <li>• Highway Inventory has been compiled along with a database showing highway condition data</li> <li>• Expression of Interest has been submitted to the Dft for a Pathfinder Highway</li> <li>• Maintenance PFI decision expected in June 2007</li> </ul>		
(xiii)	The resilience and sustainability of the Council's ICT infrastructure continue to present a significant risk of disruption to services and potential failure.			
(xiv)	Inadequate ICT system security.	<ul style="list-style-type: none"> <li>• ICT Security Manager in place</li> <li>• Gap analysis and penetration testing</li> <li>• Security policy reviewed</li> <li>• Communications Policy developed</li> <li>• Fire alarms, power and air conditioning upgraded</li> <li>• Internet filtering system trialed</li> <li>• Review network boundary and data classification</li> </ul>		



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No	Issue	Action Plans and Key Milestones	Lead Officer	Target Date for Completion
(xv)	Over-reliance on key members of ICT staff who support key systems, including a lack of capacity generally to support ICT.	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>		
(xvi)	There is a continuing risk that requires ongoing management to prevent the death or serious injury to a vulnerable client of the Council.			
(xvii)	The Council's objective to improve the educational outcomes for the Island's children continues to present a significant challenge.			

# APPENDIX B

## REVIEW OF INTERNAL CONTROL AND SIC ASSURANCE GATHERING PROCESS (SOURCE: Cipfa's Rough Guide)

