



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS  
COMMITTEE  
6 APRIL 2006**

# ITEM 11

Report of the Corporate Director -  
Resources

## STATEMENT ON INTERNAL CONTROL

### RECOMMENDATIONS

- 1.1 To approve the methodology for gaining the necessary assurance to produce the Statement on Internal Control for 2005/6.

### SUPPORTING INFORMATION

- 2.1 This Committee has responsibility for the review and approval of the Statement on Internal Control (SIC). The compilation of the SIC requires the council to conduct an annual review of the effectiveness of the system of internal control. The sources of assurance to support the SIC need to be identified and reviewed by senior officers and members. The SIC will be reported to Chief Officer Group prior to it being brought before this Committee for review and approval in June 2006.
- 2.2 Regulation 4 of the Accounts and Audit Regulations (2003) requires audited bodies to conduct a review, at least once a year, of the effectiveness of its system of internal control and publish a SIC each year with the authority's financial statements. The 2004/5 financial year was the first year when the full SIC had to be produced.
- 2.3 To aid Local Authorities, the CIPFA Finance Advisory Network produced a rough guide to the SIC in March 2005. The rough guide is primarily intended to support authorities with their requirement to produce the SIC. This suggested approach was used to produce the Council's Statement on Internal Control for 2004/5. The difficulty experienced with compiling the SIC for the first time was to establish a sound process and workable framework for providing the assurance required. The assurance gathering process consisted of setting out examples of assurance as detailed in the "Rough Guide" and linking it to the different types of evidence required to support the SIC document.
- 2.4 There were limitations to this process. One key area that needed to be developed was the introduction of a formal system for Chief Officers to provide assurance statements to the Chief Executive. Their purpose will be to ensure that Chief Officers are able to consider the processes that are used in their respective departments, how they are set out and how they can get assurance that everything is working properly. The statements will also highlight how they respond to the external view about their services and how they approach risk, quality management and ensure their services improve. Each statement will be signed off by the respective Chief

Officer. The proforma for the statements is shown in Appendix 2. Chief Officers will need to consider reports from their senior managers that the internal control activities are providing adequate risk management. Such reports would cover operational and financial matters as well as lower level information giving assurance that controls are operating as they should be.

2.5 The sources of assurance used in the production of the 2004/5 SIC are all still relevant. These are:

- Risk-management and risk identification
- Internal audit
- Quality management systems where the Council receives external accreditation or certification for them, for instance Investors in People and ISO 9000
- External audit provide assurance on the accuracy of the financial statements and on the operation of internal controls
- Performance management system.
- Inspection/regulatory reports that the Council receives

Appendix 3 shows how each form of assurance contributes to each facet of the Council's control culture.

2.6 The CPA Use of Resources Key Lines of Enquiry require that "The council can demonstrate corporate involvement in/ownership of the process for preparing the SIC". A group of senior officers will be involved in assessing the evidence gathered in support of the SIC and the Head of Audit and Risk Management will co-ordinate the compilation of the SIC.

2.7 The Audit and Accounts Committee should keep the risk-management process under review. Risk management is a continuous process, so the Audit and Accounts Committee will receive on a regular basis, reports on internal control. The council has an assurance framework in place that maps the council's strategic objectives to risks, controls and assurances. This is shown in Appendix 4. This framework will be used to provide this Committee with the information it needs to review the SIC.

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**Background papers:**

**List of appendices:**

Appendix 1 – Implications  
Appendix 2 – Assurance Certificate  
Appendix 3 - Methods of Assurance  
Appendix 4 – Assurance Framework

<b>IMPLICATIONS</b>
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**Financial**

1. None directly arising.

**Legal**

2. None directly arising.

**Personnel**

3. None directly arising.

**Equalities impact**

4. None directly arising.

**Corporate objectives and priorities for change**

5. The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.

Department .....

## ASSURANCE CERTIFICATE FOR CHIEF EXECUTIVE

Date	
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Matters to be brought to the attention of the Chief Executive  
(please state if nil return)

I certify that the information given on this return, which consists of ... pages, is accurate to the best of my knowledge, information and belief.

Signed.....

Corporate Director

### Routine outputs and processes reviewed at Directorate Management Team level

Outputs / review mechanisms	Process (Examples)	Review frequency
<b><i>Risk Management</i></b>	<ul style="list-style-type: none"> <li>• The Department has identified its critical risks. They are kept under periodic review. The Department periodically reviews the effectiveness of the action plans to manage the risks.</li> <li>• Risks assessments are included in divisional service planning.</li> <li>• Risk assessment methodology is applied to all major projects within the Department</li> <li>• Risk management is incorporated into all service plans</li> </ul>	
<b><i>Inspection/External Audit</i></b>	<ul style="list-style-type: none"> <li>• Based on the outcomes of all of the inspections within the review period, the overall assessment of the quality of the Department provided xxxxxxxxx (Star rating or other assurance indicator).</li> <li>• All inspectorate/audit recommendations have been implemented</li> </ul>	
<b><i>Internal Audit</i></b>	<ul style="list-style-type: none"> <li>• The outcomes from the audit of key systems and/or key risks indicates they are well controlled/managed</li> <li>• All audit recommendations have been implemented</li> </ul>	
<b><i>Scrutiny</i></b>	<ul style="list-style-type: none"> <li>• The outcomes from the Scrutiny review indicates the service/business area is well controlled/managed</li> <li>• All Scrutiny recommendations have been implemented</li> </ul>	
<b><i>Service Planning</i></b>	<ul style="list-style-type: none"> <li>• Outcomes from inspections, audit and Scrutiny reviews are built into annual service plans in a systematic manner.</li> <li>• An annual planning cycle and supporting tools are in place. These are reviewed each year.</li> <li>• A Directorate Plan for 2005-6 has been produced, reflecting Cabinet, national and local priorities.</li> <li>• The key priorities and related goals are cascaded through divisional plans in which actions are detailed.</li> </ul>	

<b>Outputs / review mechanisms</b>	<b>Process (Examples)</b>	<b>Review frequency</b>
	<ul style="list-style-type: none"> <li>• Divisional plans identify lead officers against tasks, with timescales and review frequencies.</li> <li>• Divisional plans are reviewed regularly with progress reported to DMT and to Members.</li> </ul>	
<b><i>Financial management</i></b>	<ul style="list-style-type: none"> <li>• Requests for key information to support the corporate budget strategy are complied with.</li> <li>• Budgetary control is embedded within the Department</li> <li>• The budget is actively managed and corrective action sought and agreed to contain spend within the approved budget.</li> <li>• The annual outturn is declared within agreed timescales</li> </ul>	
<b><i>Financial Systems and processes are free from material error and/or fraud</i></b>	<ul style="list-style-type: none"> <li>• Internal control procedures are in place and regularly monitored by management.</li> <li>• Internal Audit Reports</li> <li>• External Audit Reports</li> </ul>	
<b><i>Relating to our community</i></b>	<ul style="list-style-type: none"> <li>• There are embedded arrangements for engaging with our service users about the quality of our services.</li> <li>• The Department operates through set of service standards that customers should expect from us.</li> <li>• There is regular liaison with representative groups such as .....</li> <li>• The Department welcomes feedback from our</li> <li>• A summary of complaints is considered by DMT and appropriate action taken.</li> </ul>	
<b><i>Quality Assurance and Performance Management</i></b>	<ul style="list-style-type: none"> <li>• Specific arrangements for quality assurance are in place/ being</li> </ul>	

Outputs / review mechanisms	Process (Examples)	Review frequency
	<p>considered.</p> <ul style="list-style-type: none"> <li>• A performance Management framework is in place</li> <li>• The Department has secured and retained full IIP status.</li> <li>• A Management competencies framework is used to ensure a competency based approach to management and development, linked to the service improvement agenda.</li> <li>• The xxxxxxxx service has attained Chartermark status.</li> </ul>	
<b><i>Legislative Change</i></b>	<ul style="list-style-type: none"> <li>• Services are delivered in line with any legislative change that has occurred in the last 12 months</li> </ul>	
<b><i>Value for Money</i></b>	<ul style="list-style-type: none"> <li>• The Department can demonstrate that it has reacted in a positive way to the efficiency agenda.</li> <li>• Economy, efficiency and effectiveness is built into the service planning and risk processes</li> </ul>	

**Key performance Indicators reviewed at DMT level**

Source and context	Indicator (Example)	Review frequency
	•	
	•	



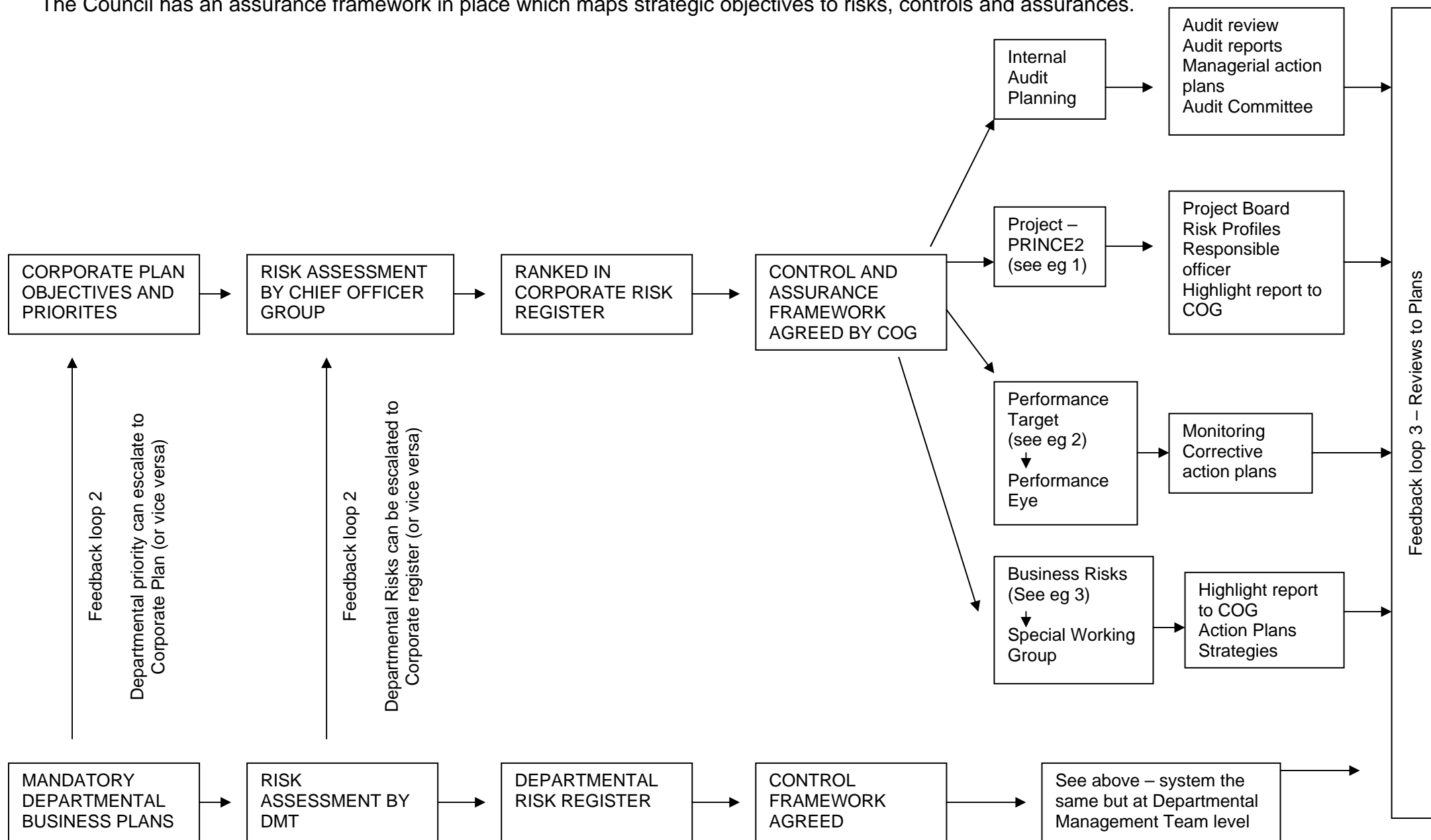
## Appendix 3

### HOW FORMS OF ASSURANCE CAN CONTRIBUTE TO THE COUNCIL'S CONTROL CULTURE

	Control Environment	Governance Framework	Risk Identification Evaluation	Risk Assurance	Operation of Controls	Monitoring	Independent Assurance
Management assurances on internal control	Yes	Yes		Yes	Yes		
Management reports on operational and financial matters	Yes	Yes		Yes		Yes	
Risk management activities	Yes		Yes		Yes		
Internal audit	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Quality management systems	Yes	Yes					
External audit	Yes	Yes			Yes		Yes
Performance Management	Yes	Yes				Yes	
Other external reports	Yes	Yes			Yes		Yes

## Appendix 4

The Council has an assurance framework in place which maps strategic objectives to risks, controls and assurances.



The framework is underpinned by the Council's Constitution, Financial and Contract Procedures for gaining approval by Cabinet and/or Council