

**STATEMENT OF INTERNAL CONTROL  
ASSURANCE FRAMEWORK PROTOCOLS**

**REPORT BY: PRINCIPAL AUDIT MANAGER**

**Wards affected****County-wide****Purpose**

To advise Members on the format of the Statement of Internal Control Assurance Framework protocols.

**Financial Implications**

None

**Reasons**

1. The CPA Uses of Resources highlights the Criteria for judgement in relation to the Statement of Internal Control.
  - An appropriate member group has responsibility for review and approval of the Statement of Internal Control (SIC) and considers it separately from the accounts. (Level 2)
  - The Council has conducted an annual review of the effectiveness of the system of internal control and reported on this in the Statement of Internal Control. (Level 2)
  - The sources of assurance to support the Statement of Internal Control have been identified and are reviewed by senior officers and members. (Level 2)
  - There are action plans in place to address any significant internal control issues reported in the Statement of Internal Control. (Level 2)
  - The Council has put in place an assurance framework that maps the council's strategic objectives to risks, controls and assurances. (Level 3)
  - The assurance framework provides members with information to support the Statement of Internal Control. (Level 3)
  - The assurance framework is fully embedded in the Council's business process. (Level 4)
  - The Council can demonstrate corporate involvement in/ownership of the process for preparing the Statement of Internal Control. (Level 4)

## Background

2. Regulation 4 of the Accounts and Audit Regulations (2003) requires the Council to conduct a review, at least once a year, of the effectiveness of its system of internal control and publish a Statement of Internal Control each year with the Council's financial statement.
3. The 2004/2005 Audit Commission Annual Audit and Inspection Letter highlighted the need for the Council to develop the assurance framework, in particular mapping strategic objectives to risks, controls and assurances.
4. The CIPFA Finance Advisory Network has published guidance in relation to the Statement of Internal Control.

## Considerations

5. The guidance requires the most senior officer and the most senior member to sign the Statement of Internal Control. They should be satisfied that the SIC is supported by reliable evidence and accurately reflects the financial and non-financial internal control environment. At Herefordshire Council it is normal practice for the Leader of the Council and The Chief Executive to sign the Council's Statement of Internal Control, however it is recognised that improvements are required in relation to the assurance process, that formally brings together the Council's process for dealing with the Statement.
6. Although the guide suggests the sources of evidence to support the SIC, it also emphasises reliance on existing processes and documents and recognises that not all of the suggested sources will be present (or useful) in any given organisation.
7. The assurance gathering process is quite detailed and gives guidance on how the SIC can be supported and evidenced. It also recognises that the Council will set out its own level of evidence gathering. The Council's approach will be to research and formally recognise things currently done across the Authority and record them. This co-ordination of existing evidence will strengthen consistency of approach across the Authority and help to promote awareness of good practice.
8. At the heart of CIPFA's guidance is the flowchart set out in Appendix 1, which helps to relate the SIC back to the Council's statutory obligations and organisational objectives. Examination shows that the Council's current approach is in line with that stated.
9. The guidance emphasises that the SIC is a corporate document involving (in addition to the most senior officer and the most senior member as signatories), a variety of people charged with delivering governance:
  - Directors and managers assigned with the ownership of risks and the delivery of services;
  - The responsible financial officer who is responsible for the accounting control systems and records and the preparation of the statement of accounts;
  - The monitoring officer in meeting his/her statutory responsibilities;

- Members (e.g. through the audit committee): and
  - Others responsible for providing assurance
10. It is important therefore that the SIC, as a corporate document, should be owned by all senior officers and members of the Council. A shared approach should be taken to compiling the SIC, as the guidance stresses that delegation to a single individual or section will dilute the statement's significance and encourage other people to distance themselves from their proper responsibilities. However the guidance requires the involvement and approval of both the responsible finance officer and the monitoring Officer to enable them to meet their separate statutory responsibilities.
  11. Although the guidance recommends that the statement should be continually reviewed throughout the year, it also recognises that authorities with well-developed arrangements will find that it will emerge from the routine governance and managerial processes. The prime examples are the Council's performance management and risk management systems, that continues to be embedded across the Council
  12. The guidance also gives an example of a framework, which identifies some typical dynamics of a SIC that the Council should consider, and shows how they can be brought together and evidenced. The Council's framework is attached in Appendix 2 and shows that the components of a robust SIC document are already in place as it simply brings together the Council's existing initiatives and areas of good practice together in a more co-ordinated and formalised manner.
  13. The guidance suggests that at the centre of the framework will be a management group or equivalent who are given ultimate responsibility for drafting the SIC, evaluating assurances and the supporting evidence. This group should ensure consistency with existing policies and the authority's internal control framework.
  14. It also emphasises that compiling a SIC should not be done in a vacuum. Comments, evidence and feedback can come from many places, including reports from inspectorates, internal and external audit on specific service areas, or corporate reviews on performance and risk management authority wide and recognises that each can provide additional assurances on the adequacy and effectiveness of existing service performance that can be viewed in the light of the SIC. Again this is in line with the Council's existing approach.
  15. The guidance also shows a need for a review body in the process, such as an audit committee, who should be charged with critically reviewing the SIC and its supporting documentation. It seems that it is vital that this review body remains independent from the SIC compilation and is given real powers to make recommendations and ultimately changes to the process as it sees fit.
  16. In line with good practice the Council has adopted an Audit Committee with the remit to approve the Council's Statement of Accounts and associated reports.
  17. CIPFA recommends that the SIC should be reviewed at least once a year and should not be seen simply as a task at a particular point in time or as an add-on end of year activity to comply with legislation.
  18. It also emphasises that once an authority has agreed the process involved in compiling a SIC, it needs to consider an appropriate timeline that allows input into the document in a timely fashion.

19. Appendix 3 and 4 sets out how the SIC could be compiled over the year and is linked with the framework outlined in Appendix 2.
20. CIPFA has also published an assurance checklist, which covers each objective outlined in Appendix 1. The Council has developed it's own checklist, which will be used to help give the assurances required in relation to the SIC.

## **Risk Management**

21. If the Council has a robust assurance framework that maps strategic objectives to risks, controls and assurances, it will help to improve the Council's CPA Use of Resources Judgement Assessment score in relation to internal control.

## **RECOMMENDATION**

- THAT**
- (a) The Corporate Management Board is made responsible for the Statement of Internal Control, with the Director of Resources being the Lead Officer;**
  - (b) subject to any comments from the Audit Committee the frameworks in Appendix 2 and 3 be adopted; and**
  - (c) both frameworks to be reviewed annually by the Audit Committee.**

## **BACKGROUND PAPERS**

- CIPFA guidance on the Statement of Internal Control.