

**Statement of Accounts 2004 – 05**  
**Statement on System of Internal Control.**

**1. Introduction**

1.1 The Authority at its Annual Meeting on 01 June 2005 approved changes to the terms of reference of its committees. For the Audit and Performance Committee, the changes included giving the Committee responsibility for approving the Authority's Annual Statement on Internal Control and the Authority's Annual Statement of Accounts.

1.2 The Accounts and Audit Regulations 2003 require that in respect of the year to 31 March 2005, the Financial Statements must be approved no later than 31 July 2005. This special meeting of the Committee has been convened for the sole purpose of approving the Statement of Accounts and the Statement on Internal Control. The Audit Commission has set the date of 22 August as the date on which the audit will commence.

1.4 The Accounts and Audit Regulations 2003 make requirements not just in relation to the Accounts themselves, but also in relation to the systems of internal control, and the review and reporting of those systems. The regulations require inclusion within the Financial Statements of a separate Statement on Systems of Internal Control, focussing not simply on the *financial* controls, but on *all* of the controls over the whole of the Authority's business and services. It is this aspect of the regulations, which is addressed in this report.

**2. CIPFA Guidance**

2.1 CIPFA has developed a paper giving guidance on the processes needed for the establishment, maintenance and review of a system of internal control and risk management in local authorities and in establishing proper practices for the form and content of a Statement on Internal Control (SIC).

2.2 Sections 1 – 3 of the CIPFA paper provide guidance, but Section 4 advises on the "Proper Practices" and in consequence, compliance with those practices is mandatory for all local authorities.

2.3 Regulation 4 of the Accounts and Audit Regulations 2003 requires that from 01 April 2003:

- "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

- “The relevant body shall conduct a review at least once a year of the effectiveness of its systems of internal control and shall include a statement on internal control, prepared in accordance with “proper practices”, with (a) any statement of accounts it is obliged to publish in accordance with regulation 11, or (b) any income and expenditure account, statement of balances or record of receipts and payments it is obliged to publish in accordance with regulation 12.”

2.4 These requirements build on the 1999 Turnbull Report, which stated

- “A company’s objectives, its internal organisation and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which a company is exposed.”

2.5 The CIPFA guidance paper has clarified what the regulations mean by a “*sound system of internal control*.” It has provided a framework within which the elected members of the authority can maintain such a system and conduct an annual review of its effectiveness to provide sufficient, relevant and reliable assurance to enable them to authorise the signing of a SIC to be published *with* the financial statements.

2.6 In response to these requirements, the attached Statement on System of Internal Control has been approved by the Clerk and Chief Executive, the Treasurer and the Chief Constable, signifying compliance and assurance by those charged with maintaining appropriate levels of internal control and governance at the highest levels within the organisation. Subject to the approval of the SIC by the Committee, it will also be signed by the Chairman of the Authority.

### **3. Report of Internal Auditor**

3.1 Attached to this covering report is a report by the Authority’s Internal Auditor, which has been prepared in accordance with the guidance and the “Proper Practices” identified in the CIPFA report. The report is an independent and objective assessment of the authority’s systems of internal control, cross referenced to the evidence on which the report is based. The report should provide members with the level of *independent* assurance as to the existence and operation of internal controls such as to enable the Committee to approve the Statement and to authorise the Chairman of the Authority to sign the Statement on System of Internal Control on behalf of the Authority.

#### **4. Recommendation**

- 4.1 Members are asked to consider the Internal Auditor's report reviewing the Authority's systems of Internal Control, and the Statement thereon.
- 4.2 Members are asked to note those areas where improvements in procedures are required to be made during 2005 – 06.
- 4.3 Subject to Members' satisfaction with the report of the Internal Auditor and his response to any questions raised, Members are asked:
- (i) to approve the Statement attached as the Authority's Statement on System of Internal Control in respect of the year ending on 31 March 2005
  - (ii) to authorise the signing of the Statement by the Chairman of the Authority so that it might be presented for audit with the Authority's Statement of Accounts on 22 August 2005.

**Clive Alcock**  
Clerk and Chief Executive

**Douglas Thomas**  
Treasurer

**Michael Baxter**  
Chief Constable