

CANNOCK CHASE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

13TH NOVEMBER 2007

REPORT OF THE DIRECTOR OF GOVERNANCE

STATEMENT ON INTERNAL CONTROL 2006-07 – PROGRESS REPORT

1. Purpose of Report

- 1.1 To present to the Audit & Governance Committee for information progress in addressing the significant internal control issues identified in the Statement on Internal Control for 2006-07.

2. Recommendations

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| 2.1 That the Committee notes the contents of the progress report on the Statement on Internal Control for 2006-07. |
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3. Background

- 3.1 The Council has a statutory responsibility to undertake an annual review of the effectiveness of its system of internal control and to publish a "statement on internal control" with the annual accounts.

- 3.2 The Chartered Institute of Public Finance and Accountancy (Cipfa) has defined the scope of internal control as spanning "*those controls designed to ensure:*

- *the authority's policies are put into practice*
- *the organisation's values are met*
- *laws and regulations are complied with*
- *required processes are adhered to*
- *financial statements and other published information are accurate and reliable*
- *human, financial and other resources are managed efficiently and effectively, and*
- *high quality services are delivered efficiently and effectively."*

- 3.3 In reviewing the effectiveness of the system of internal control, the Council has to identify any 'significant internal control issues' and what action will be taken to address these. There is no single definition as to what constitutes a 'significant internal control issue' and judgement has to be exercised. Factors used in making such judgements include:-

- the issue has seriously prejudiced or prevented achievement of a principal objective;
- the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another service area;
- the issue has led to a material impact on the accounts;
- the Chief Internal Auditor has reported on it as significant, for this purpose, in the Internal Audit Annual Report;

- the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the Council;
 - the issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.
- 3.4 The Statement on Internal Control (SIC) for 2006-07 was considered by the Audit & Governance Committee on 11th June 2007 and it was recommended that Council approve the SIC.
- 3.5 It was agreed that the Audit & Governance Committee would receive monitoring reports on progress in addressing the significant internal control issues identified in the SIC, and this is the first progress report.
- 3.6 Details of the progress made against each of the significant internal control issues is given at Annex 1.
- 3.7 Of the 6 significant internal control issues identified in the SIC:
- 0 have been addressed in full (status shown as green on Annex 1)
 - 5 are being progressed (status shown as amber on Annex 1)
 - 1 no action has yet been taken (status shown as red on Annex 1)
- 3.8 A further progress report will be submitted to the Committee in due course.

4. Legal Implications

- 4.1 The Council is charged with various statutory duties and responsibilities and is further required to account for the manner and way in which it discharges those duties and responsibilities. There is a statutory duty on the Council to consider its processes carefully and where potential deficiencies are found, to take prompt action to address the same. As a public body, it is of paramount importance that the integrity of the Council is maintained and that all reasonable, appropriate and proportionate steps are taken to ensure that the deficiencies identified are remedied.
- 4.2 The Council inevitably exposes itself to potential criticism and litigation should its internal controls fail or be found to be inadequate. Key issues have been identified which have the potential to expose the Council, and in some respects its' staff, to potential civil and criminal action.
- 4.3 Inadequacies in internal control, if not addressed, pose a real and likely litigation risk. The extent and nature of such risks will vary depending on the nature and extent of the deficiency and the resulting damage/loss (if relevant).
- 4.4 However, the suggested action to be taken to address the internal control issues will assist greatly in minimising the risks and potential legal implications identified.
- 4.5 The Progress Report provides useful documentary evidence of the lengths and measures being taken by the Council in not only identifying deficiencies or potential weaknesses, but also considerable assistance in addressing those deficiencies/weaknesses. In view of the importance of internal control, the regular review of progress will ensure that issues posing risks to the organisation are actioned in a timely and effective manner, thereby reducing, if not eliminating, the risk and liability to the Council.

5. Financial Implications

5.1 There are no financial implications arising directly from this report, however, in resolving any serious issues that have arisen from the outcome of an audit, managers must either:

- Implement audit recommendations within existing budgets; or
- Submit a report to Council requesting a supplementary estimate to obtain further resources to help implement audit recommendations.

6. List of Background Papers

None

7. Annexes to the Report

Annex 1 – Significant Internal Control Issues – Progress Report