

## REPORT TO POLICY & FINANCE COMMITTEE – 18 JUNE 2008

### THE REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

#### 1 INTRODUCTION

- 1.1 Regulation 4 of the Accounts and Audit Regulations (England) 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 statement on internal control (statement of assurance) each year with the body's financial statements.
- 1.2 The Accounts and Audit (Amendment) (England) Regulations came into force on 1 April 2006.
- 1.3 The intention of this amendment is to strengthen governance and accountability through a new requirement to:
  - (i) consider the findings of the review of systems of internal control, and
  - (ii) carry out and consider the findings of a review of the effectiveness of the system of internal audit
- 1.4 The relevant body shall be responsible for maintaining an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices.
- 1.5 The review should make an assessment against the internal audit standards, that are set out in England and Wales - a Practitioners' Guide 2003, published jointly by NALC and the SLCC. These include making an assessment in relation to:
  - (i) scope of internal audit
  - (ii) independence
  - (iii) competence
  - (iv) relationships
  - (v) audit planning and reporting
- 1.6 The review must include the extent to which internal audit adds value to the body and how well it is helping delivery of the objectives of the body. The focus of the review should be on the delivery of the internal audit service to the required standard in order to produce the required outcome, i.e. assurance on internal control and the management of risks in the body that can be relied on.
- 1.7 Where possible, evidence in support of the findings should be collected during the year. Some examples of sources of evidence include the annual report of internal audit, external auditor reports covering internal audit work, or on key financial systems.
- 1.8 The result on the review should include an opinion as to whether or not the internal audit system is effective. Any areas for development or change should be identified in the report and an action plan produced, setting out the proposed remedial actions, the people responsible for delivering them, and the deadlines for completion of the actions.
- 1.9 The review of the effectiveness of the system of internal audit should not be left to the year-end. Since the review feeds into the statement of assurance, it needs to be completed first. The Regulations require only that the review of the effectiveness of the system of internal audit precedes the statement of assurance review.

## **2 ARRANGEMENTS FOR 2007/08**

2.1 As the financial year has already ended, a post year-end review only is possible for 2007/08.

## **3 REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL**

3.1 The Internal Control Environment for 2007/08

The key elements of Ringwood Town Council's internal control environment are:-

3.1.1 Financial Management

A range of financial management measures is in place to ensure the effective use and management of resources, including:

- (i) An annual budget set by the Policy and Finance Committee covering both revenue and capital expenditure, which provides a framework for the planning and monitoring of the financial resources required.
- (ii) Financial stewardship is reported to Councillors by monthly payment listings and monthly information reports.
- (iii) Financial procedures are contained within the Council's Standing Orders and Financial Regulations and are reviewed from time to time.

3.1.2 Risk Management

The Council has various mechanisms in place that help to identify, assess, and control risk. These mechanisms include:

- (i) A risk management policy and strategy.
- (ii) Training in risk assessment and management for key employees through health and safety workshops.

3.1.3 Internal Audit

An independent internal auditor was appointed by Policy and Finance Committee to undertake an internal audit on the income and expenditure of the Council. The main objects of the audit were to:

- (i) assess the adequacy of internal controls and procedures,
- (ii) ensure that all income and expenditure had been accounted for accurately and properly.

3.2 Review of Effectiveness

The review considers the comments and findings of the internal auditor and those of the Town Clerk and Finance Manager, the latter of whom advises the former on the development and maintenance of internal control for the Council.

3.3 The system of internal financial control is based on a framework of regulatory management information, financial regulations, administrative procedures and processes, including the separation of duties, management supervision and a system of delegation and accountability. Management within the Council undertakes the development and maintenance of the system. In particular, the system includes:

- (i) Comprehensive budget systems.
- (ii) Regular budgetary control reports which indicate financial performance against forecasts.
- (iii) Authorisation of expenditure by any 2 of 6 named councillors, who have the responsibility for

signing cheques, as laid down by the Local Government Act 1972, updated by modern practices, accepted by the District Auditor.

3.4 Internal Audit: Meeting the standards as set out in England and Wales-a Practitioners' Guide 2003

Expected Standard	Evidence of Achievement	Area for Development
1. Scope of internal audit	Terms of reference were agreed by TC & FM on behalf of RTC Council. Scope of audit work took into account risk management processes and wider internal control using CIPFA risk model	To be agreed by P&F Com.  None
2. Independence	I.A. had direct access to those charged with governance. I.A. report is made in auditor's own name to P&F Committee. I.A. does not have any other role within RTC.	None  None  None
3. Competence	No evidence exists that I.A. work was not carried out ethically, with integrity and objectivity.	None
4. Relationships	Town Clerk and Finance Manager were consulted on the I.A. plan and on the scope of the audit. Responsibilities for officers and I.A. are defined in relation to internal control, risk management and fraud and corruption. The responsibilities of Members are understood and training of Members is carried out as necessary.	None  To be included in terms of reference to be approved by P&F Com. Training to be undertaken when a need is identified.
5. Audit Planning	The audit plan properly takes account of corporate risk. The plan was not approved by P&F Com. I.A. has reported in accordance with the plan agreed by the Town Clerk and Finance Manager	To be agreed by P&F Com. The timetable of key dates to be approved by P&F Com.

**4 CORPORATE GOVERNANCE**

4.1 Corporate Governance is 'the system by which the organisation is controlled'. It is concerned with the procedures associated with the decision-making, performance, and control of the Council. Also, it is concerned with providing structures to give overall direction to the Council and to satisfy reasonable expectations of accountability to persons outside of the Council. To this end, appropriate arrangements are in place to safeguard both the Council's resources and the way in which decisions are made and communicated. A local Members' Handbook, that is in line with suggested best practice principles, has been issued to all Members.

4.2 All councillors sign up to the Members' Code of Conduct, and this is monitored by the Responsible Financial Officer. This promotes and maintains a high standard of conduct by Councillors and co-opted councillors.

4.3 The Council has adopted Grievances procedures.

## **5 INTERNAL CONTROL ISSUES**

- 5.1 The internal auditor has reported on the above issues independently and impartially to the Policy and Finance Committee (agenda item 4 refers).

## **6 CONCLUSIONS**

- 6.1 The limited review for 2007/08 of the system of internal control, including internal audit, has shown that they are effective for this Council and that no major concerns have been brought to the attention of Members.
- 6.2 Planning for a review for 2008/09 needs to be arranged, in order that the review is completed before the June 2009 meeting of this Committee.

## **7 RECOMMENDATIONS**

It is recommended that:

- i) this report is noted;
- ii) arrangements are made for the next review to be carried out before the June 2009 meeting of this Committee.

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