



Department of

**Health, Social Services
and Public Safety**

An Roinn

**Sláinte, Seirbhísí Sóisialta
agus Sábháilteachta Poiblí**

www.dhsspsni.gov.uk

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Your Ref: HSS (F) 2/2004

Our Ref:

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Dear Sir/Madam

STATEMENT ON INTERNAL CONTROL: FULL IMPLEMENTATION FOR 2003/04

The purpose of this circular is to advise HPSS bodies of the wording of a model Statement on Internal Control for 2003/04.

HSS (FAU) 19/2003, issued on May 2 2003, advised all HSS bodies of the requirement to implement a full Statement of Internal Control by 2003/04.

HPSS bodies must develop the model wording provided to suit their own circumstances and explain what has been done to date, anything that remains to be done and the action planned for the coming year with a proposed timetable.

System of Internal Control

The statement on the system on internal control summarises the process that has been applied in reviewing the effectiveness of the system of internal control as appropriate to the circumstances of the reporting body.

The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The statement should specify the work undertaken during the year. It should also record details of actions taken or proposed to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts.

Risk Management

HSS bodies should have risk management, control and review processes in place, appropriate to the circumstances and activities of the body. The details of these processes will vary from one body to another depending on circumstances such as the size of the body and the complexity of the risks which it faces. It is important however that HPSS bodies adhere to the principles of the AS/NZS 4360:1999, which is the common model of risk management adopted by the Department for itself and all of its associate bodies.

Examples of the high level elements which would assist bodies to consider the completeness of the processes that have been put in place are:

- Leadership and strategy
- Context for risk management
- Risk Identification and Evaluation
- Criteria for evaluation of risk
- Risk Control Mechanisms
- Review and Assurance Mechanisms

HPSS bodies are referred to Circular HSS(PPM) 5/2003, issued on 11 April 2003 which required all HPSS bodies to have a functioning risk register in place by September 2003.

HPSS bodies are also referred to DAO (DFP) 25/03, issued by DFP to Accounting Officers in July 2003 which is available, along with other guidance on the area of governance, on the DHSSPS website: <http://www.dhsspsni.gov.uk/hss/governance>.

Statement on Internal Control

The Statement on Internal Control should be developed in accordance with the proforma at Appendix 1 to this Circular.

The wording of the proforma in italics is an example of wording which should be developed by individual organisations to suit their particular circumstances and should provide a brief but comprehensive summary of the actual processes in place, including a description of how current initiatives are being taken forward. The statement should provide an honest appraisal of the state of internal controls currently in operation which is capable of substantiation. The narrative description of the processes in place should be used for reporting on progress or compliance with central initiatives.

In particular the revised proforma for 2003/04 includes:

- Confirmation that the results of the Accounting officer review of the effectiveness of internal control has been discussed with the Board, Audit Committee (and the Risk Committee, where applicable)
- An expectation for a reference in the Statement on Internal Control to ongoing maintenance and development of risk management and review processes.

The Statement on Internal Control should be presented along with the annual accounts. It should be signed by the Accountable Officer and passed to the external auditors for review and will form part of the audited annual financial statements.

Any enquiries concerning the content of this circular should be addressed in the first instance to Deborah Crudden 028 9052 8485.

Yours faithfully

WENDY THOMPSON
Financial Accounting Unit

The wording which is not in italic script in this proforma is compulsory.

Suggested wording for a Statement on Internal Control for the Financial Year 2003/04

Scope of Responsibility

The Board of [HPSS body] is accountable for internal control. As Accountable Officer and Chief Executive of the Board of [HPSS body], I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of the organisation, and for reviewing the effectiveness of the system.

Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, and to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in [HPSS body] for the year ended 31 March 2004, and up to the date of approval of the annual report and accounts, and accords with Department of Finance and Personnel guidance.

Example wording:

The Board exercises strategic control over the operation of the organisation through a system of corporate governance which includes:-

- *a schedule of matters reserved for Board decisions;*
- *a scheme of delegation, which delegates decision making authority within set parameters to the Chief Executive and other officers;*
- *standing orders and standing financial instructions, the establishment of an audit committee.*

Example wording:

The system of internal financial control is based on a framework of regular financial information, administrative procedures including the segregation of duties and a system of delegation and accountability. In particular it includes:-

- *comprehensive budgeting systems with an annual budget which is reviewed and agreed by the board;*
- *regular reviews by the board of periodic annual financial reports which indicate financial performance against the forecast;*
- *setting targets to measure financial and other performances;*
- *clearly defined capital investment control guidelines;*
- *as appropriate, formal budget management disciplines.*

The [HPSS body] has an internal audit function which operates to defined standards and whose work is informed by an analysis of risk to which the body is exposed and annual audit plans are based on this analysis. In 2003-04 Internal Audit reviewed the following systems [specify the systems]. In his annual report, the Internal Auditor reported that the [HPSS body] system of internal control was adequate and effective [or otherwise as concluded by auditors]. However, [as appropriate] weaknesses in control were identified in a [small] number [be specific] of areas. Recommendations to address these control weaknesses have been or are being implemented.

With regard to the wider control environment the [HPSS body] has in place a range of organisational controls, commensurate with the current assessment of risk, designed to ensure the efficient and effective discharge of its business in accordance with the law and departmental direction. Every effort is made to ensure that the objectives of the [HPSS body] are pursued in accordance with the recognised and accepted standards of public administration.

For example: [bodies should provide specific examples], the [HPSS body's] recruitment and selection policies are based on the principle of equality of opportunity and controls are in place to ensure that all such decisions are taken in accordance with the relevant legislation. [Details of compliance or lack of it with management action to address weaknesses could be given].

Capacity to handle risk

Provide details of the key ways in which

- *leadership is given to the risk management process*
- *staff are trained or equipped to manage risk in a way appropriate to their authority and duties. Include comment on guidance provided to them and ways in which you seek to learn from good practice.*

The risk and control framework

The [HPSS body] has developed a risk management strategy, which has identified the organisation's objectives and risks and sets out a control strategy for each of the significant risks. Procedures have been put in place for verifying that aspects of risk management and internal control are regularly reviewed and reported and that risk management has been incorporated fully into the corporate planning and decision making processes of the organisation.

[Add further detail as necessary, referring to the continuing development of risk management and the introduction of controls assurance standards in accordance with departmental guidance].

In addition to these factors the actions outlined below are planned in the coming year [include a brief description of planned actions in the current year]. Include too the conclusion of any recent independent review, for example by internal audit or consultants, of the current situation.

Review of Effectiveness

As Accountable Officer, I have responsibility for the review of effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the [HPSS body] who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and Audit Committee and a plan to address weaknesses and ensure continuous improvement to the system is in place.

Significant internal control problems (if applicable)

If there are significant internal control problems, record here an outline of the actions taken, or proposed, to deal with them. The wording should be tailored to reflect the circumstances of the case.

Signature of Accountable Officer and date of signature