

**GOVERNANCE AND AUDIT COMMITTEE  
29 APRIL 2009**

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**INTERNAL AUDIT PLAN 2009/10  
(Borough Treasurer)**

**1 PURPOSE OF REPORT**

- 1.1 The purpose of this report is to set out the underlying principles applied in the Internal Audit planning process, present the draft Internal Audit Plan for 2009/10 and seek the Governance and Audit Committee's feedback on and agreement to the draft Plan attached at Appendix 1.

**2 RECOMMENDATION**

- 2.1 **That the Governance and Audit Committee approve the Internal Audit Plan for 2009-10 attached at Appendix 1.**

**3 ADVICE RECEIVED FROM STATUTORY OFFICERS**

Borough Solicitor

- 3.1 Nothing to add to the report.

Borough Treasurer

- 3.2 The budget for 2009/10 includes £209,290 for the provision of contracted out internal audit services. This Plan can be met within these resources.

Strategic Risk Management

- 3.3 Robust internal audit arrangements are an important part of effective risk management. Audit plans should be targeted to areas of greatest risk to the Council and individual internal audit reviews should focus on controls in place to mitigate risk and highlight any gaps in assurance.

**4 SUPPORTING INFORMATION**

Internal Audit Requirements

- 4.1 The Council is required under the Accounts and Audit (Amendment) (England) Regulations to "maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control." The Council delegates responsibility for the provision of the internal audit service and for ensuring this requirement is met to the Borough Treasurer.
- 4.2 The regulations require conformance with the CIPFA Code of Practice for Internal Audit in Local Government which defines internal audit as follows:-

“Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.”

4.3 More specifically, Internal Audit aims to: -

- satisfy the legal requirements of a Local Authority Internal Audit Service, including maintaining an ‘adequate and effective’ audit of the Council’s accounting records and providing an annual opinion on the adequacy of the Council’s control environment;
- examine, evaluate and report independently and objectively on the adequacy of management’s arrangements to secure the proper use of resources (economy, efficiency and effectiveness);
- assist management in achieving its objectives, managing its risks and establishing and maintaining adequate systems of internal control
- assist management, where appropriate, in the investigation of alleged fraud, theft, corruption or other irregularity; and
- ensure External Audit can continue to place reliance on Internal Audit’s work, to avoid duplication and minimise audit fees.

#### Internal Audit and Governance

4.4 Since the last Annual Internal Audit Plan was approved, there have been some important changes which influence the internal planning process. In particular:

- Since 2007/08, local authorities have been required to produce an Annual Governance Statement (AGS), replacing the Statement on Internal Control (SIC). The AGS focuses on the overall governance environment. As with the SIC, the Annual Head of Internal Audit Opinion provided to those charged with governance supports the AGS by reporting the adequacy and effectiveness of the organisation’s control environment. To reflect the broader focus of the AGS, local authorities are now additionally looking for assurance on their governance arrangements from reviews carried out under their internal audit plans to further support their AGS.
- The Comprehensive Performance Assessment (CPA) has been replaced by the Comprehensive Area Assessment (CAA) with effect from 2008/09. The CAA moves away from the organizational based approach under CPA to focus on the outcomes targeted within Local Area Agreements and Sustainable Community Strategies agreed with partners. The ‘Use of Resources’ elements have also been updated with a reduced focus on financial management and reporting and greater emphasis on governance and management of resources.
- The contract with the provider of the Council’s internal audit services, Deloitte and Touche Public Sector Internal Audit Limited expired on 31 March 2009. Given the value of the contract, EU Procurement Regulations required that the contract be advertised in the Official Journal of the European Union (OJEU). Following advertising in OJEU and a robust evaluation of tenders submitted from short-listed candidates, the new contract was awarded HW Controls and Assurance. This is a significant change as the Council’s internal audit services have been carried out by the same provider since becoming a unitary authority in 1998.

## Development of the Audit Plan

- 4.5 The draft Internal Audit Plan has been developed to focus on those areas of the Council's business that have the greatest influence on the achievement of its objectives. The following factors have been taken into account in developing the Plan.

### ***Financial Factors***

- 4.6 The value of income, expenditure and transactions was considered throughout the planning stage to ensure that the Internal Audit Plan is directed to key areas of spend and income. The Plan has been developed to ensure that there is coverage of key income streams for example at leisure facilities and expenditure such as under waste management and highways. A further example of this is schools, which account for around £62m in the 2009/10 budget, where all schools are audited over a three year cycle.

### ***Risk***

- 4.7 Given the finite resources available to spend on internal audit, the Internal Audit Plan is risk driven to ensure that audit resources are targeted to areas of significant risk identified in Service Plans and the Strategic Risk Register. For example, the Strategic Risk Register identifies risks around delivery of a number of significant projects such as the town centre redevelopment and Garth Hill for which specific audit reviews have been included in the Plan.

### ***Key Financial Systems***

- 4.8 Key financial systems are fundamental to financial control at the Council and hence are included in the Internal Audit Plan each year. The 2009/10 Plan includes 160 days on key financial systems representing 21% of the total days in the Plan. These systems provide the underlying data for the annual financial statements audited by our external auditors. The Internal Audit Plan is structured to ensure that the external auditors can place maximum reliance on the work of Internal Audit on the key financial systems thus minimising external audit fees in respect of the accounts.

### ***Link to the Annual Governance Statement***

- 4.9 The 2007/08 Annual Governance Statement identified some areas for improvement in our governance procedures and intended actions to address these weaknesses. Internal Audit work has been carried out during 2008/09 on specific aspects of governance as well as reviews incorporating progress on actions to address these weaknesses. The 2009/10 plan includes further reviews to provide assurance that the Council governance procedures are operating effectively. In particular reviews of risk management arrangements within individual directorates are included. These will follow on from the previous audit of management of strategic risk to examine procedures for the management of operational, project and programme risks across the organization.

### ***Comprehensive Area Assessment/Use of Resources***

- 4.10 The Plan takes into account the increased focus on partnerships under CAA. A 5 day review of the Children's Trust has been included which will focus on this strategic theme partnership's governance and financial arrangements. The plan also includes reviews on other areas such as hospitality registers and sustainability to address the shifting emphasis on governance and management of resources under CAA.

### ***Changes to Regulation, Procedures or IT Systems***

- 4.11 Internal Audit reviews have been included in the Plan where significant changes to key procedures and processes have been identified or where new IT systems are

being implemented. Examples of this are the proposed computer audit of the new performance management system and the audit of the controls over the new initiatives to address homelessness in the Housing Strategy audit.

#### ***Local knowledge***

- 4.12 The Internal Audit Plan takes account of areas where performance has previously been found to be poor, where Internal Audit are aware of management concerns or where limited assurance opinions have been given in the past. For example, the Plan includes 20 days on Procurement where weaknesses have previously been noted and management have set up action plans to address these issues. The Plan includes 13 days for specific follow up of limited assurance reports issued in 2008/09.

## **5 CONSULTATION**

### Principal Groups Consulted

- 5.1 Directors and Chief Officers at the Council, the Council's external auditors and the new internal audit contractor, HW Controls and Assurance.

### Method of Consultation

- 5.2 At the initial drafting stage, discussions were held with the Section 151 Officer and other key officers from the directorates. The new contractors assisted in identifying specific local government issues to be included in the Plan. A meeting was also held with the new contractor's Computer Auditor and the Chief Officer : Information Services to discuss the proposed IT audits. The draft Plan was then circulated to the Chief Executive, Assistant Chief Executive, Section 151 Officer and Directors for discussion at their DMTs and comments made on the content of the draft Plan and timing of audits have been taken into account in the Plan attached at Appendix 1.

### Contact for further information

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### Doc. Ref

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