

**TO: GOVERNANCE AND AUDIT COMMITTEE  
29 MARCH 2010**

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**INTERNAL AUDIT STRATEGY AND PLAN 2010/11  
(Head of Audit and Risk Management)**

**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 and seek the Governance and Audit Committee's approval of the Internal Audit Strategy and Internal Audit Plan for 2010/11.

**2 RECOMMENDATION**

- 2.1 **That the Governance and Audit Committee approve the Internal Audit Strategy attached at Appendix 1.**
- 2.2 **That the Governance and Audit Committee approve the Internal Audit Plan for 2010/11 attached at Appendix 2.**

**3 ADVICE RECEIVED FROM STATUTORY OFFICERS**

Borough Solicitor

- 3.1 No comments to add.

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.

4.4 Internal Audit provides independent assurance on the control environment and acts as a deterrent to would-be fraudsters but for Internal Audit to provide full assurance on all activities and transactions across the organisation, the Council would need to commit significantly more resources to internal audit services than is realistically available. Full assurance could only ever be achieved by checking every transaction and this would not deliver value for money. Internal Audit’s work is planned so that Members and Officers can rely on Internal Audit to detect significant control weaknesses for the areas audited and transactions sampled and is hence directed to areas of greatest risk. Whilst Internal Audit reviews alone, although carried out with due professional care, cannot guarantee that frauds will be detected, Internal Audit is only one element of the governance framework which includes for example the Codes of Conduct for Members and Officers, the Whistle Blowing Policy and management actions to ensure effective internal control.

#### Internal Audit Strategy

4.5 The Code of Practice for Internal Audit in Local Government in the United Kingdom (Revised 2006) requires that a strategy document be produced, either as a document in its own right, or integrated into an existing document such as a business or service plan, which sets out how the internal audit service will be delivered and developed. An Internal Audit Strategy has now been drafted. This is attached at Appendix 1 for the Committee to review and approve.

#### Development of the Audit Plan

##### ***Risking Methodology***

4.6 Given the finite resources available to spend on internal audit, the Internal Audit Plan is risk driven to ensure that the audit resources available are targeted to focus on those areas of the Council’s business that have the greatest influence on the achievement of its objectives. The process for developing the annual Internal Audit Plan starts with a risk based methodology which is used to assess Council activities, assets, income and expenditure streams by scoring these in terms of the following criteria:

- Materiality ~ based on monetary value as given in budget plans and previous outturn to ensure that the Plan has adequate coverage of areas of high spend and income. The assessment of materiality also takes into account the significance of the activity for the Authority for example where a monetary value cannot be clearly assigned such as corporate governance matters
- Fraud/Irregularity ~ the potential risk of fraud or irregularity for individual activities for example the risk is higher where the handling of cash is involved and hence a higher score has been assigned to such activities
- Third Part Sensitivity ~ higher scores have been given to areas on which third parties place reliance. For example, a higher score has been assigned to data quality encompassing national performance indicators
- Internal Control Environment ~ assessing the expected robustness of the control environment based on previous audit opinions, local knowledge and feedback from Finance and other officers. Where the control environment has been assessed as weak, a higher score has been assigned.
- Time since the last audit ~ the longer the elapsed time since the last audit, the higher the score given to the activity
- Other Assurance Coverage ~ consideration has been given to whether external inspections or external audits have been completed which would already provide the Council with assurance. Where such assurance is available a lower score has been assigned, for example fixed assets which are subject to detailed audit by the Audit Commission as part of their audit of the financial statements
- The Likely Effectiveness of Audit ~ Given finite resources it is important that audit work focuses on areas where Internal Audit can add value and where greatest assurance can be given and hence higher scores have been given to such areas, for example school audits.

4.7 Following this risk assessment, a number of other factors were considered in producing the detailed Plan and these are summarised below.

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

4.8 Emphasis has been placed on ensuring that there is audit coverage of the key financial systems which are fundamental to financial control at the Council and hence are included in the Internal Audit Plan each year. The 2010/11 Plan includes 157 days on key financial systems representing 25% 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 2008/09 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 2009/10 on specific aspects of governance. 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 which have not previously been audited have been included in the 2010/11 Plan.

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

- 4.10 The Plan takes into account CAA/Use of Resources. For example the proposed audit of the Children's Trust addresses the CAA focus on partnerships.

### ***Probity***

- 4.11 Probity audits provide assurance over the proper administration of the Authority's activities. In drawing up the annual Internal Audit Plan, focus is placed on ensuring there is coverage of areas where in any organisation there is potential risk of abuse for example procurement cards.

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

- 4.12 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. A key example of this is the replacement of the Pericles system utilised for benefits, Council Tax and NNDR. These areas are audited each year but for 2010/11, audits have been scheduled prior to and after implementation of the new system to ensure that assurance can be provided on the effectiveness of the control environment in place throughout the full year. In addition, computer audit work will be undertaken to seek assurance on processes to ensure the complete and accurate transfer of data on to the new system and on application and security controls in the new system.
- 4.13 The Internal Audit plan for 2010/11 is attached at Appendix 2 for the Committee's review and approval.

## **5 CONSULTATION**

### Principal Groups Consulted

- 5.1 The Chief Executive, Directors and Chief Officers at the Council, the Council's external auditors and the 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. A meeting was also held with the 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 2.

### Contact for further information

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### Doc. Ref

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