

**OVERVIEW & SCRUTINY COMMISSION  
18 MAY 2006**

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**STATEMENT ON INTERNAL CONTROL  
AND  
INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2005/06  
(Acting Director of Corporate Services & Resources – Finance)**

**1. INTRODUCTION**

- 1.1 The Accounts and Audit Regulations 2003 require the Council to publish a Statement on Internal Control (SIC) to accompany the annual Statement of Accounts, which is to be approved by the Final Accounts Committee on 27 June 2006. The aim is to provide assurance that the Council's systems of internal control are working effectively and to identify those areas where improvements can be made.
- 1.2 The contents of the SIC are drawn from Internal Audit's Annual Assurance Report 2005/06 and issues identified by External Audit and other agencies and inspectorates. The SIC must include both of these areas in order to comply with the CIPFA Code of Practice for Internal Audit in Local Government.
- 1.3 From the work undertaken during the year, the Head of Audit is of the opinion that key systems are operating soundly and that there is no fundamental breakdown of controls. Whilst the general system of internal controls accords with proper practice, some specific issues have been identified and the primary purpose of this covering report is to draw those to the attention of members of the Commission.

**2. SUGGESTED ACTION**

- 2.1 The Overview & Scrutiny Commission is invited to consider Internal Audit's Annual Assurance Report 2005/06 and the Statement on Internal Control and consider whether any further action is required.**

**3. SUPPORTING INFORMATION**

**Background**

- 3.1 Under the Council's Constitution and Scheme of Delegation, the Borough Treasurer is responsible for the administration of the financial affairs of the Council under Section 151 of the Local Government Act 1972. Professional guidance issued by the Chartered Institute of Public Finance and Accountancy requires the provision of an effective Internal Audit function to partly fulfil the Borough Treasurer's responsibilities under Section 151.
- 3.2 Corporate governance best practice requires the Council to have an audit committee or its equivalent, which enables the Borough Treasurer to formally report the activity of Internal Audit to Members. Under the Council's scrutiny arrangements, Internal Audit activity is reported to the Overview & Scrutiny Commission, which acts as the Audit Committee, and provides the

mechanism by which significant weaknesses in internal control can be escalated.

### **Internal Audit Annual Assurance Report**

3.3 The Head of Audit's Annual Assurance Report is attached at Annex A. The main issues, from an internal control perspective, are summarised below:

- The reliability of performance data has been a recurring theme in external audit and inspection reports. Internal Audit resources were redirected in 2005/06 to focus on the calculation and reporting of performance data, supporting the action that is being taken in this area. Although improvements have been made Internal Audit is planning to carry out more work in this area in 2006/07, in conjunction with external audit, in order to provide the Council and external agencies with assurance that that performance data is reliable.
- Control over passwords remains an area of concern. An irregularity within the area of trade waste highlighted the risks associated with sharing and not updating passwords. Systems reviews during the last year have identified further areas where password controls and basic security features could be improved. Appropriate recommendations have been made and will be followed up in 2006/07 to ensure that they have been implemented.
- Inadequate records within two schools and home to school transport meant that Internal Audit were unable to confirm that the necessary CRB checks had been carried out in a number of instances. These have been followed up by the department. Internal Audit will continue testing for compliance in this important area as an integral part of all relevant audits in the future.
- As there is always some staff turnover the Council needs to promote an anti-fraud culture on a regular basis. Although some training has taken place in the last year further work is necessary to improve and maintain awareness of the Council's Fraud and Corruption Policy, Whistleblowing Policy and procedures for complying with the Money Laundering Regulations. This will include publicity material and a continuation of the training programme.
- The need to continually review and update the Council's risk management arrangements and the Corporate Risk Register in particular is identified as an issue. The Corporate Risk Register was originally approved by the Executive in 2003 and needs to be refreshed so that all significant risks are incorporated in future Service plans and budgets. This is one of the key tasks for the recently appointed interim Head of Audit and Risk Management. An action plan has been developed and an initial report will be made to the Executive during the summer.

### **Statement on Internal Control**

3.4 The publication of a SIC is a statutory requirement. It has to be published alongside the annual Statement of Accounts after being approved by the Final Accounts Committee and signed by the Leader and Chief Executive. Best practice requires this to be reviewed by the Council's Audit Committee, or

equivalent, prior to its formal approval and signature. The draft SIC is attached at Annex B and reflects those issues identified within the Internal Audit Annual Assurance report 2005/06. The intention is that the SIC should be correct at the time of publication and it has, therefore, been necessary to incorporate a number of issues not covered by Internal Audit's Annual Assurance Report. These are summarised below:

- Following the creation of the new Education, Children's Services and Libraries Department in May 2005, further organisational change has occurred recently, with responsibility for Bracknell Forest Services moving from Corporate Services and Resources to Social Services and Housing. In addition to this there has been staff turnover at the top levels of management across the Council. Major organisational change has the potential to weaken a previously strong internal control environment. Internal Audit work in 2006/07 will include ensuring that the recent organisational changes have not compromised the Council's internal control arrangements.
- Whilst the Council has delivered within budget since 1998 and the 2006/07 Budget was prepared in line with the Medium Term Financial Plan, the Council still faces major challenges in the years ahead if it is to achieve the planned 'soft landing' and deliver a balanced budget that does not rely on the use of reserves and balances. This will be especially difficult if the Council retains its housing stock, as it will be costly to meet the Decent Homes Standard by 2010. The complexities of the Waste PFI contract that is being negotiated at present on behalf of three Berkshire authorities, including Bracknell Forest, could also have a significant impact on the Council's finances for the foreseeable future. In any event, robust budgetary control arrangements will need to be maintained throughout this period to ensure that spending does not exceed the budget and jeopardise the Council's future financial plans. Internal Audit will review budgetary control each year as this is one of the Council's key financial systems.

### **Background Papers**

Internal Audit Reports for 2005/06  
Internal Audit Annual Plan 2005/06  
Quality Questionnaires relating to 2005/06 audit reviews  
External Audit Reports relating to 2005/06  
Inspection Reports issued in 2005/06

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