

**OVERVIEW AND SCRUTINY COMMISSION  
15 MARCH 2007**

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**INTERNAL AUDIT PLAN 2007/08  
(Borough Treasurer)**

**1 PURPOSE OF REPORT**

- 1.1 To seek the Overview and Scrutiny Commission's views on the proposed Internal Audit plan 2007/08.

**2 SUPPORTING INFORMATION**

Background

- 2.1 The Accounts and Audit (Amendment) (England) Regulations 2006 require local authorities 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 Borough Treasurer, as Section 151 Officer, has the delegated responsibility for ensuring this requirement is met.
- 2.2 The regulations also 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."
- 2.3 Internal Audit's strategy must be to meet the requirements of legislation and also to add value by assisting management to achieve its objectives. This work, however, must be undertaken against a background of the resource constraints that the Council is facing and is likely to continue to face into the foreseeable future.
- 2.4 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 accounts 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 in securing proper controls in new and revised manual and computer systems
  - assist management, where appropriate, in the investigation of alleged fraud, theft, corruption or other irregularity
  - ensure External Audit can continue to place reliance on Internal Audit's work, to avoid duplication and minimise audit fees.

## Audit Planning

- 2.5 There have been important changes over the last few years, which influence significantly the Internal Audit planning process. These include, in particular, the increased profile of many aspects of corporate governance: -
- the rise of risk management and the ability, where risk management is properly embedded, to base much of the audit plan on risks identified by management
  - the Statement on Internal Control, which requires Internal Audit input into an annual statutory publication, designed to demonstrate the successes and weaknesses of the Council's arrangements to secure good internal control
  - the External Audit focus on Performance Management, which requires increased Internal Audit review of the corporate and local arrangements for Service Planning, Performance Indicators etc.
  - the increasingly tough requirements of the Comprehensive Performance Assessment, which requires better and better performance to maintain a reasonable overall score. Of particular relevance to Internal Audit is the 'use of resources' judgement, which includes a section on Internal Control.
- 2.6 The approach taken to developing the Internal Audit Plan for 2007/08 is, therefore, significantly different to that in previous years. Instead of attempting to audit all areas of Council activity over a three to five year period the emphasis in future years will be on risk. Audit work will consequently be focused in those areas of the Council's business that have the greatest influence on the achievement of its objectives. Factors that are taken into account include:
- Council objectives/priorities
  - Strategic and operational risks identified in the Corporate Risk Register
  - Financial factors – income, expenditure, number and value of transactions etc
  - Human resource issues – areas of high (or low) staff turnover, vacancies, new staff in senior positions e.g. headteachers
  - Local knowledge – areas where performance is poor or have received limited assurance audit opinions in the past.
- Best practice requires risks to be regularly reviewed leading to the preparation of a flexible annual plan rather than the previously rigid five year strategic plan.
- 2.7 In addition to the above, Internal Audit must also have regard to the requirements of External Audit and undertake some probity work to ensure that the responsibilities of the Section 151 Officer are fulfilled. The draft Internal Audit Plan for 2007/08 therefore includes a range of the more traditional system based audits and anti fraud work. One of the outcomes of this revised approach is that more audits are of a cross-cutting nature ('Corporate Themes').
- 2.8 The proposed Internal Audit plan 2007/08 is attached at Annex A. The aim is to deliver a total of 931 audit days, predominantly through the Council's contractor, Deloitte and Touche Public Sector Internal Audit Ltd (D&T). The number of days and their timing will need to remain flexible as the precise scope of each audit is agreed and in order to respond to significant developments during the year. If any major changes to the plan are deemed necessary these will be discussed with those members nominated by the Commission to have specific responsibility for audit matters and reported to the Commission in the regular Internal Audit assurance reports.
- 2.9 Departments, Corporate Management Team, External Audit and the Council's contractor, D&T, have all been consulted on the contents of the 2007/08 Plan. The

comments of the Commission, in its capacity as the Council's Audit Committee, are now requested so that the plan can be finalised and published.

### Resourcing the Plan

- 2.10 As indicated above, the intention is that D&T will deliver the majority of the Internal Audit Plan 2007/08. It is anticipated that approximately 840 days will be delivered through the existing contract for which there is a budget of £196,000 in 2007/08. The balance of the plan will be delivered via in-house resources, although this is subject to the successful recruitment of a Head of Audit and Risk Management when the contract of the existing interim manager comes to an end in April 2007.
- 2.11 To put this into context a recent survey of the other Berkshire unitaries (excluding West Berkshire) indicated that Bracknell Forest's planned audit days were less than those of its neighbours, where the range was from 1,177 to 1,308 days. Whilst this may not be an ideal comparison, because of the wide variation in size and structure of the authorities, if the comparison is made on the basis of audit days per £m of revenue expenditure Bracknell Forest is still the second lowest (13.63 days per £m) within a range of 12.08 to 16.04. In the future the aim will be to reduce the burden of audit even further, although this is entirely dependent upon the level of risk. If, for example, there is an increase in the number of limited or no assurance opinion audits it will be necessary to consider enhancing audit coverage rather than reducing it. Based on the experience of recent years a reduction is considered to be the more likely scenario.

### Contact for further information

Alan Nash – 01344 352180

Alan.nash@bracknell-forest.gov.uk

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