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31 March 2008

To: Chairman – Councillor TJ Wotherspoon
Vice-Chairman – Councillor RT Summerfield
Members of the Corporate Governance Committee – Councillors NCF Bolitho,
EW Bullman, NS Davies, JA Hockney and SGM Kindersley

Quorum: 2

Dear Councillor

This is a supplement to the previously-published agenda for the meeting of **CORPORATE GOVERNANCE COMMITTEE** on **THURSDAY, 20 DECEMBER 2007**, containing a copy of the slideshow from the Internal Audit Presentation (Item 13 on the original agenda).

Yours faithfully
GJ HARLOCK
Chief Executive

Requests for a large print agenda must be received at least 48 hours before the meeting.

AGENDA

- 13. Continuation of Internal Audit Presentation**
Deferred from previous meeting. Chris Harris, partner of Bentley-Jennison, will complete the presentation.

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Internal Audit



2,887	2,361,033	5,511,508	1,368,935	285,565	1,654,300	178,372	40,170	218,542	61,891	23,618
35,768	1,863,820	265,344	1,593	1,863,820	265,344	1,863,820	35,768	1,863,820	35,768	1,863,820

Bentley Jennison



Corporate Governance Committee

Chris Harris – Partner
RSM Bentley Jennison

Agenda

RSM Bentley Jennison

- Role of the Corporate Governance Committee
- Internal Audit
- External Audit
- Compare/Contrast Audit with Scrutiny
- Functions and activities governed by the CG Committee
 - Internal control process
 - Risk management
 - Corporate governance
 - Legal issues
 - Ethics
 - Fraud and Corruption
 - Challenge
 - Watchdog
- Case study

Role of the Corporate Governance Committee

RSM Bentley Jennison

- Consider effectiveness of:
 - Risk management arrangements
 - Control environment
 - Anti fraud and anti-corruption arrangements
- Seek assurances that action is being taken on risk related issues including auditors recommendations
- To be satisfied that the assurance statements (including SIC – and for 07/08 the broader “annual governance statement”) properly reflect the risk environment
- Internal Audit (strategy/annual plan, interim reports, annual opinion)
- External Audit (and other review agencies)
- Accounting Policies
- Self Assess its own Effectiveness

Internal Audit

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- Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- It works through the Section 151 holder (Chief Executive and Chief Financial Officer) to the Corporate Governance Committee
- **The CG Committee should approve (but not direct) the internal audit strategy and plan and monitor performance**

External Audit

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- To carry out an audit that meets the requirements of the Audit Commission Code of Audit Practice
- Objectives are to review and report on:
 - The audited bodies financial statements and its statement on internal control; and
 - Whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources
- **The CG Committee should consider the reports of external audit and inspection agencies**

Compare/Contrast Audit and Scrutiny

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- Audit – An official examination and verification of accounts and records
 - Scrutiny – the careful and detailed examination of something in order to obtain information about it
- - -
- The role of the Scrutiny Committee is to review policy and challenge whether the executive has made the right decisions to deliver policy goals.
 - The role of the Corporate Governance (Audit) Committee is to provide independent assurance that there are adequate controls in place to mitigate key risks, and to provide assurance that the Council (including the scrutiny function), is operating effectively.

Internal Control Process

RSM Bentley Jennison

- An internal control process encompasses the policies, processes, tasks, behaviours and other aspects of the Council that, taken together:
 - facilitate its effective and efficient operation by enabling it to respond appropriately to significant operational, financial, compliance and other risks to achieving the Council’s objectives.This includes the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;
 - help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation;
 - help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

Internal Control Process - continued

RSM Bentley Jennison

- The consequences of poor Internal Control
 - Objectives not met
 - Poor performance and quality
 - Reduced funding
 - Poor reputation
 - Financial loss
 - Unreliable information to monitor performance
 - Loss of confidence of stakeholders (eg Public, Partners, Government etc)
- The Statement on Internal Control reflects the risk environment and any actions required to improve it
- **The CG Committee should therefore consider the effectiveness of the Council's control environment**

Risk Management

RSM Bentley Jennison

- Risk
 - The threat that an event or action will adversely affect South Cambridgeshire District Council’s ability to achieve its objectives and execute its strategies

- Risk Management
 - The systematic, positive identification and treatment of risk which either threatens the Council in any way or causes beneficial opportunities to be missed

Risk Management – continued 1

RSM Bentley Jennison

- Risk management enables us to:
 - Prioritise – deal with the most important tasks first
 - Recognise factors that could delay, reduce or even stop the achievement of our objectives
 - Evaluate different ways of meeting the objective balancing the possibility of a better result against increased costs (either money or time)
- Risk Registers
- **The CG Committee should therefore consider the effectiveness of the Council’s risk management arrangements**
- **Seek assurances that action is being taken on risk related issues identified by auditors and inspectors**

Risk Management – continued 2

RSM Bentley Jennison

- Questions you should be asking
 - What are the high risk areas for the Council
 - How are they managed and monitored
 - Have our strategic objectives changed
 - Is the Council facing any new risks
 - Is the ranking of risks in the register still appropriate
 - What risks have been mitigated to the extent that they are no longer key risks
 - Are there changed internal factors eg a recent inspection, which might affect risk.

Embedding Risk Management – continued 3

RSM: Bentley Jennison

- Are all staff aware of the Council's risk management policy?
- Do all departments have their own risk management plan? Is it linked to their operational plan?
- Is risk management part of the planning and decision making process?
- Are risks considered before the Council enter into any new activity
- Have key performance indicators been set for key areas of activity?
- Do reporting mechanisms allow for reporting against these KPIs
- Is innovation encouraged?

Corporate Governance

RSM Bentley Jennison

- Corporate governance is about: setting and monitoring strategy; holding managers to account; managing risks; seeing that stewardship responsibilities are discharged and generally seeing that viability is ensured for the Council
- It requires independent, effective assurance about the adequacy of financial management and reporting
- Good corporate governance combines the
 - ‘hard’ factors – robust systems and processes;
 - with the ‘softer’ characteristics of effective leadership and high standards of behaviour.
- This in turn involves the elements of:
 - Leadership, Culture, Systems and processes, External focus

Legal Issues

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- To ensure that the Council's business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for and used economically, efficiently and effectively
- The relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish

CIPFA

Accounts and Audit Regulations

Ethics

RSM Bentley Jennison

- Public service ethics are a prerequisite to, and underpin, public trust, and are a keystone of good governance.

Organisation for Economic Co-operation and Development

- Selflessness
- Honesty and integrity
- Objectivity
- Accountability
- Openness
- Personal judgement
- Respect for others
- Duty to uphold the law
- Stewardship
- Leadership

Fraud and Corruption

RSM Bentley Jennison

- Taking actions to proactively stop fraud occurring in the first place is a far better remedy than merely managing the risk
- Management need to establish and implement effective arrangements
- **The CG Committee should oversee, monitor, support, enable, encourage, evaluate and when necessary enforce effective actions to counter fraud**

Challenge

	RSM Bentley Jennison
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Effective “Audit” Committees

help raise the profile of internal control, risk management and financial reporting issues, within an organisation as well as providing a forum for the discussion of issues raised by internal and external auditors

CIPFA – Toolkit for Local Authority Audit Committees

Ineffective “Audit” Committees

are talking shops which have no impact on the risk and control issues of the Council. Members have little knowledge of what they should be doing and, as such, they, the review agencies and officers concentrate on minutiae rather than strategic risk

Mike Gennard, Head of Internal Audit, Bentley Jennison

Challenge
Challenge
Challenge

Watchdog

RSM Bentley Jennison

- To watch carefully – so as to detect illegal or unethical conduct
- An avenue for whistleblowing
- **The CG Committee needs to see the bigger picture of the whole control framework and risk environment of the Council. It should seek from the officers sufficient reporting and evidence to enable it to do this.**

Case Study 1

RSM Bentley Jennison

Case Study 1

Your internal auditors have completed their audit of the Council's payroll system and they reported to management and subsequently the Corporate Governance Committee that in their opinion the current control framework provides inadequate control to provide assurance that the risks are being appropriately managed

- Are you clear what this means?
- What is the role of the Corporate Governance Committee?

Case Study 2

RSM Bentley Jennison

Case Study 2

A Health & Safety Executive visit criticises the Council's management and assessment process for Health & Safety.

- Would you currently be informed of this as the Corporate Governance Committee?
- Do you think you should be?
- If so, what is the role of the Corporate Governance Committee?

RSM Bentley Jennison

Thank you

Any questions

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