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RSM Tenon

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Updated Strategy for Internal Audit 2012/13

For presentation at the Corporate Governance Committee meeting of 23 March 2012

Approved by Dan Harris as Head of Internal Audit

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1 INTRODUCTION

1.1 Overall Approach

This document sets out the approach we have taken to develop your internal audit strategic plan for 2011/12 – 2013/14. It provides the Authority with an updated three year strategy and a more detailed plan for 2012/13.

1.2 The Purpose and Function of Internal Audit

Internal auditing 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.

(Chartered Institute of Internal Auditors)

Our professional responsibilities as internal auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Chartered Institute of Internal Auditors (CIIA) in the UK and Ireland.

As such, our approach to internal audit also meets the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

In line with these requirements, we perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help South Cambridgeshire District Council achieve its objectives.

2 DEVELOPING YOUR INTERNAL AUDIT STRATEGY

2.1 Developing the Detailed Plan for 2012/13

Changes to South Cambridgeshire District Council's objectives and risk profile are the starting point in the development of the strategy for internal audit for the organisation, which is set out at Appendix A to this document.

In updating preparing your strategy and developing the detailed internal audit plan for 2012/13 we have reviewed the latest Strategic risk register (dated February 2012). The plan is also being presented to the Executive Management Team and will be discussed at the Corporate Governance Committee. The detailed plan for 2012/13 is set out at Appendix B.

2.2 Your Internal Audit Team

Your Engagement Director is Mark Jones.

Your Head of Internal Audit is Dan Harris.

Your Client Manager is Suzanne Lane.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

2.3 Internal Audit Fees

In line with our tender and subsequent engagement letter, the fee for your internal audit service for 2012/13 is £82,750 which is based on an input of 250 days. A breakdown of and fees for each assignment is provided at Appendix B as part of the detailed internal audit plan for 2012/13.

3 CONSIDERATIONS FOR THE CORPORATE GOVERNANCE COMMITTEE

To assist the Corporate Governance Committee with their consideration of the Internal Audit Plan, we have set out a number of considerations below:

- Does the Updated Strategy for Internal Audit (as set out at Appendix A) cover the organisation's key risks as they are recognised by the Corporate Governance Committee?
- Does the audit strategy include all those areas that the Corporate Governance Committee would expect to be subject to internal audit coverage, both in terms of our professional responsibilities as well as covering areas of concern flagged by management?
- Is the level of audit resource accepted by the Committee and agreed as appropriate, given the level of assurance required?
- Does the detailed internal audit plan for the coming financial year (see Appendix B) reflect the areas that the Corporate Governance Committee believes should be covered as priority?

APPENDIX A: UPDATED STRATEGY FOR INTERNAL AUDIT 2011/12 – 2013/14

Risk Based Coverage

Risks	Auditable Areas	Source	2011/12	2012/13	2013/14
Aims Approaches Actions – A iii, A iv, A v					
<p>Welfare Reform Proposed radical changes to benefits, including possibility of localised council tax benefits and introduction of a universal credit system, <i>leading to possible:</i></p> <ul style="list-style-type: none"> • increased IT cost due to required system changes; • implementation costs not fully reimbursed by Government grant; • increased workload for Benefits and Homelessness teams, <p><i>resulting in potential for:</i></p> <ul style="list-style-type: none"> • adverse effect on service provision due to the number of changes; • increased dissatisfaction with the service due to reduced amounts of benefit payable; • impact on Medium Term Financial Strategy; • devastating effect on people with mental health problems; and • dislocation of private sector housing market. 	<p>Welfare Reform Project</p>	<p>Strategic Risk Register (STR15)</p>			✓
Aims Approaches Actions – A.v					
<p>Medium Term Financial Strategy (MTFS) Risks concerning the financial projections include:</p> <ul style="list-style-type: none"> • not achieving delivery of savings to meet targets; 	<p>Medium Term Financial Strategy (MTFS) Financial Planning and Budgetary Control</p>	<p>Strategic Risk Register (STR8)</p>		✓	

Risks	Auditable Areas	Source	2011/12	2012/13	2013/14
<ul style="list-style-type: none"> • pay and inflation exceed assumptions; • interest rates do not meet forecasts; • employer's pension contributions increases exceed projections; • impact of successful equal pay claims exceeds available reserves; • changes in demand for some service areas could lead to pressures in the related budgets; • unforeseen restructuring costs; • local government resource review - localisation of business rates; • major developments do not meet housing trajectory forecast; • uncertainty re new homes bonus and formula grant from 2013/14; • cost of supporting development and meeting demand from growth; • impact of welfare reform (and see STR15 above); • costs associated with the economic downturn; • HRA self-financing post reform; • availability of budget for Cabinet priorities; • council tax strategy, <i>leading to</i> the Council needing to take action to cut its budgets, <i>resulting in</i> cuts in services, public dissatisfaction, audit and inspection criticism. 					
Aims Approaches Actions - C.i, C.ii.2, E.iii, E.iv.					
<p>Lack of Development Progress While there is good progress on the Cambridge fringe sites, at Cambourne and on a refreshed planning application</p>	Planning and Growth	Strategic Risk Register (STR5)		✓	

Risks	Auditable Areas	Source	2011/12	2012/13	2013/14
for Northstowe despite uncertainty about improvements to the A14, development is below target, <i>leading to</i> the authority being unable to deliver its housing needs, <i>resulting in</i> the Council having to meet the shortfall in the short term from developments in existing villages and head off speculative major planning applications outside the strategy.					
Aims Approaches Actions – A.C.					
STR12 - Supported Housing Reduction in Supporting People (SP) funding, <i>leading to</i> loss of staff and changes to delivery structure, <i>resulting in</i> dissatisfaction amongst residents and concerns over well being of vulnerable people	Supported Housing	Strategic Risk Register (STR12)	✓		
Aims Approaches Actions – All					
Implementation of National Job Evaluation Scheme Employee anxiety about Job Evaluation, <i>leading to</i> significant staff absence or reduced productivity, <i>resulting in</i> inability to provide full services.	HR	Strategic Risk Register (STR14)	✓		
Aims Approaches Actions – A & C					
HRA Business Plan: Government policy changes Government decides to reopen the debt settlement, <i>leading to</i> increased debt requirement, <i>resulting in</i> reduced housing programme.	Business Planning	Strategic Risk Register (STR24)			✓

Coverage for External Audit Reliance or to meet Regulatory Requirements

Systems	Source of Requirement	2011/12	2012/13	2013/14
Corporate Governance	Annual Review of the Authority's Governance processes.	✓	✓	✓
Risk Management	Annual Review of the Authority's Risk Management processes.	✓	✓	✓
Income & Debtors	To ensure all funds due to the Authority are promptly recognised and invoiced for. To confirm there is an adequate and effective debt control process to minimise outstanding debt.	✓	✓	✓
Budgetary Control	Review of the Authority's process to develop, approve and manage the budget of the Council.	Included within GL audit	See risk based audit (MTFP) for 2012/13	✓
General Ledger	The accuracy and integrity of the general ledger is pivotal in the production of the Authority's accounts.	✓	✓	✓
Creditors	Promptness and process of input, approval and payment of supplier invoices to ensure charges made on the Authority are valid and authorised.	✓	✓	✓
Cash, Banking & Treasury Management	To ensure the Authority's bank accounts and cash are adequately controlled and monitored. To ensure that investment opportunities are clearly identified and managed to maximise security where appropriate.	✓	✓	✓
Payroll (including Expenses & Pensions)	To ensure the Authority is compliant with statutory legislation and that all payroll, pension and expense payments are correctly authorised.	✓	✓	✓
Capital Expenditure and Asset Management	This review will focus on the Capital Accounting and expenditure arrangements and will also examine the controls in place to update and manage the asset register and inventories.	✓	✓	✓
Procurement	To review the procurement/tendering process used by the Authority to ensure integrity and compliance with legislation.	✓	✓	✓
NNDR	To ensure that commercial premises are correctly charged for based on reconciliations between the Authority's records and Valuation Office listings.	✓	✓	✓
Council Tax	To ensure domestic properties are correctly charged for based on the CT band settings and reconciliations between the Authority and Valuation Office listings.	✓	✓	✓
Housing Benefits	To ensure that benefits are accessible, correctly calculated, paid promptly, adequately monitored and accurately recorded with other related areas.	✓	✓	✓

Systems	Source of Requirement	2011/12	2012/13	2013/14
Housing Rents	To ensure that housing rents are appropriately set, collected and that rent arrears are chase in line with the Councils Policy.	✓	✓	✓
Top up testing	To meet External Audit requirements	✓	✓	✓
Reconciliation testing	To meet External Audit requirements	✓	✓	✓

Other Internal Audit Coverage

Internal Audit Coverage	Source / Rationale	2011/12	2012/13	2013/14
Safeguarding	An annual review to ensure the Authority are completing and can support the self-assessment Checklist on 'The Implementation of the Key Safeguarding Employment Standards'.			✓
Partnerships	A review of the Authority's partnership arrangements to ensure that the Authority adequately identifies and manages the partnerships they are engaged in.	✓		
Health and Safety	To establish that processes are in place to ensure compliance with Health & Safety legislation and that new legislation is acted upon promptly.			✓
Human Resources	One of the key platforms to the effective delivery of the Authority's objectives is through its human resource.	See risk based audit for 2011/12		✓
Performance Management	Adequacy of performance management integral part of governance arrangements.	✓	✓	✓
Taxation	To ensure the Authority is correctly identifying VAT, NI and PAYE amounts to be paid promptly and that the payments are reconciled and authorised.	✓		
Insurance	To ensure that the Authority has appropriate insurance policies in place, that these are regularly reviewed and claims are appropriately dealt with.		✓	
Environmental Health	To assist in ensuring an effective Environmental Health service which meets its targets and delivers a customer driven service. This could include emergency planning issues.	✓	✓	✓
Repairs – Partnership Arrangements	Responsive Repairs for the Authority are transferring to a partnership with Mears s of April 2012. This review will include the partnering arrangements in place and the Council monitoring of the partnership arrangements. (to include both Planned and Responsive Maintenance)	✓	✓	✓

Internal Audit Coverage	Source / Rationale	2011/12	2012/13	2013/14
Asset Management (Housing)	To ensure that the Authority is maintaining the standards of its housing stock. The audit will review the stock conditions survey and link to compliance with the Decent Homes Standards.		✓	
Housing Allocations and Voids	To ensure that housing stock is allocated promptly to the right applicants through the choice based letting system.	✓	✓	✓
Customer Services	Customer Service arrangements is a key area for the Authority. This review could include customer compliments and complaints or customer first response. The audit in 2012/13 will include the Contact Centre, which has moved to South Cambridgeshire District Council.		✓	
Contract Services	To ensure that contract service delivery is effectively measured and managed through appropriate contract management. To include in 2011/12 procurement of contracts.	✓		
Section 106	Section 106 planning gain is an important element of any development and maximum benefit should be achieved.		✓	
ICT Review	An Audit Needs Assessment will be undertaken to assess the proposed Computer Audit work.	✓	✓	✓
Proactive Fraud work	CIPFA's updated Red Book 2, Managing the Risk of Fraud, was published in November 2008. A high level review of the organisation against the Red Book 2 will be undertaken.	✓		✓
Annual Governance Statement	To ensure that the Annual Governance Statement is an accurate reflection of priority areas.	✓	✓	✓
Follow Up	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	✓	✓	✓
Audit Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning ▪ Preparation for, and attendance at, Corporate Governance Committee meetings ▪ Regular liaison and progress updates ▪ Liaison with external audit ▪ Preparation of the annual internal audit opinion 	✓	✓	✓

APPENDIX B: DETAILED INTERNAL AUDIT PLAN 2012/13

Audit	Overview of Internal Audit Coverage	Internal Audit Approach	Proposed Timing	Fee	Target Corporate Governance Committee
Assurance and Advisory Work to Address Specific Risks					
<p>Medium Term Financial Strategy (MTFS) Risks concerning the financial projections include:</p> <ul style="list-style-type: none"> • not achieving delivery of savings to meet targets; • pay and inflation exceed assumptions; • interest rates do not meet forecasts; • employer's pension contributions increases exceed projections; • impact of successful equal pay claims exceeds available reserves; • changes in demand for some service areas could lead to pressures in the related budgets; • unforeseen restructuring costs; • local government resource review - localisation of business rates; • major developments do not meet housing trajectory forecast; • uncertainty re new homes bonus and 	<p>Review of the Council arrangements for the developing, monitoring and review of the Medium Term Financial Strategy and annual Budget, this will include:</p> <ul style="list-style-type: none"> ▪ Annual review of assumptions. ▪ Inclusion of the General Fund / Housing Revenue Account savings targets. ▪ Annual approval of Budget. ▪ Annual review of Medium Term Financial Plan. ▪ Monitoring of the Budget and the Financial Plan. ▪ Regular reporting of the actual against Budget and Financial Plan. 	Risk Based	Q1	£4,000	June 2012

Audit	Overview of Internal Audit Coverage	Internal Audit Approach	Proposed Timing	Fee	Target Corporate Governance Committee
<p>formula grant from 2013/14;</p> <ul style="list-style-type: none"> • cost of supporting development and meeting demand from growth; • impact of welfare reform (and see STR15 above); • costs associated with the economic downturn; • HRA self-financing post reform; • availability of budget for Cabinet priorities; • council tax strategy, <p><i>leading to the Council needing to take action to cut its budgets, resulting in cuts in services, public dissatisfaction, audit and inspection criticism.</i></p>					
<p>Planning and Growth Lack of Development Progress</p> <p>While there is good progress on the Cambridge fringe sites, at Cambourne and on a refreshed planning application for Northstowe despite uncertainty about improvements to the A14, development is below target, <i>leading to the authority being unable to deliver its housing needs, resulting in the Council</i></p>	<p>To establish that the Authority has processes in place to ensure that they are up to date with current legislation and that it is applied where appropriate. To ensure planning applications are processed promptly and delays are identified and dealt with. To ensure a customer driven service is in place.</p> <p>In addition, as part of our review we will include a review of the Annual Monitoring Report, annual review of the Local Development Scheme and the new Strategic Land Availability Assessment.</p>	Risk Based	Q1	£3,300	June 2012

Audit	Overview of Internal Audit Coverage	Internal Audit Approach	Proposed Timing	Fee	Target Corporate Governance Committee
having to meet the shortfall in the short term from developments in existing villages and head off speculative major planning applications outside the strategy.					
Coverage for External Audit Reliance or to meet Regulatory Requirements					
Corporate Governance	<ul style="list-style-type: none"> ▪ To be agreed 	TBC	Q2	£2,800	September 2012
Risk Management	<ul style="list-style-type: none"> ▪ Risk Management Strategy ▪ Risk Register ▪ Risk Reporting ▪ Identification and use of Assurances. 	Risk Maturity	Q3	£2,800	March 2013
Income & Debtors	<ul style="list-style-type: none"> • Raising and authorisation of invoices; • Chasing of outstanding debts; • Debt write off. 	Key Financial Controls	Q3	£1,600	December 2012
General Ledger	<ul style="list-style-type: none"> • Access Controls; • Journals; • Month end closedown and reconciliation process. 	Key Financial Controls	Q3	£1,600	December 2012
Creditors	<ul style="list-style-type: none"> • Placing of orders; • Confirmation of goods being received; • Authorisation of Invoices; • Processing of credit notes; • Preparation and authorisation of payment runs. 	Key Financial Controls	Q3	£1,600	December 2012
Cash, Banking & Treasury Management	<ul style="list-style-type: none"> • Receipt of cash; • Processing of cash payments; 	Key Financial Controls	Q3	£1,600	December 2012

Audit	Overview of Internal Audit Coverage	Internal Audit Approach	Proposed Timing	Fee	Target Corporate Governance Committee
	<ul style="list-style-type: none"> • Bank mandate; • Bank reconciliation; • Control over loans and investments where appropriate; 				
Payroll (including Expenses & Pensions)	<ul style="list-style-type: none"> • Starters; • Leavers; • Changes to contract details; • Payment authorisation & run; • Authorisation of expenses claims. • Reporting. 	Key Controls Financial	Q3	£2,250	December 2012
Capital Expenditure and Asset Management	<ul style="list-style-type: none"> • Processing of capital payments; • Maintenance of the asset register; • Internal verification of assets; • Disposals of assets. 	Key Controls Financial	Q3	£2,850	March 2013
Procurement	<ul style="list-style-type: none"> • Procurement and Value for Money Strategy; • Compliance with the SFI's / SO's; • Evidence of obtaining quotations and tenders; • Maintenance of tender register; • Approach to monitoring spend within the Authority 	Key Controls Financial	Q2	£2,000	September 2012
NNDR	<ul style="list-style-type: none"> • Procedures & training; • Review of charges; • Processing of discounts / exemptions; • Processing bills; • Debt recovery • Reconciliations. 	Key Controls Financial	Q3	£2,000	March 2013

Audit	Overview of Internal Audit Coverage	Internal Audit Approach	Proposed Timing	Fee	Target Corporate Governance Committee
Council Tax	<ul style="list-style-type: none"> Procedures & training; Review of charges; Processing of discounts / exemptions; Processing bills; Debt recovery; Reconciliations. 	Key Financial Controls	Q3	£2,000	December 2012
Housing Benefits	<ul style="list-style-type: none"> Procedures & training; Processing of applications; Checking of applications; Monitoring and Reporting. 	Key Financial Controls	Q3	£3,650	March 2013
Housing Rents	<ul style="list-style-type: none"> Setting of Housing Rents; Rent increases; Collection of rents; Rent arrears monitoring and chasing; Rent arrears reporting. 	Key Financial Controls	Q2	£2,000	September 2012
Top up testing	In order for external audit to place reliance on testing undertaken by internal audit, the sample testing is required across the financial year, as such top up testing is required at year end for the finance systems.	Key Financial Controls	Q4	£2,650	June 2013
Reconciliation testing	Additional financial testing to ensure that reconciliations are undertaken and reviewed in line with External Audit requirements	Key Financial Controls	Q3	£1,800	March 2013
Other Internal Audit Input					
Performance Management	A review to ensure that the national performance indicator systems have been established within the Authority and that these are being monitored. This will include sample testing some performance indicator	Systems Based	Q4	£2,200	June 2013

Audit	Overview of Internal Audit Coverage	Internal Audit Approach	Proposed Timing	Fee	Target Corporate Governance Committee
	back to source systems.				
Insurance	Review of the processes in place to ensure that insurance policies held by the Authority, are reviewed on a regular basis and that claims against the policies are adequately handled by the Authority.	Systems Based	Q1	£1,400	June 2012
Environmental Health	To assist in ensuring an effective Environmental Health service which meets its targets and delivers a customer driven service. The focus of this review will be agreed with management prior to the start of the review.	TBC	Q4	£1,800	June 2013
Repairs – Partnership Arrangements	<p>From April 2012, the Council will enter into a Maintenance partnership with Mears, our review will focus on the Council's arrangements for monitoring of the contract in place through review of adequacy, frequency, timeliness and accuracy of key performance indicators and reports.</p> <p>This scope does not include an evaluation of performance under the partnership agreement but will focus on the adequacy, accuracy and timeliness of reporting.</p>	Systems Based	Q2	£4,000	September 2012
Asset Management (Housing)	To ensure that the Authority is maintaining the standards of its housing stock and undertaking adequate options appraisals where required. The audit will review the use stock conditions survey and link to compliance with the Decent Homes Standards.	Systems Based	Q2	£2,800	December 2012
Housing Allocations and Voids	A review of the choice based letting allocations process to ensure that properties are promptly identified, applicants chosen and void times minimised.	Systems Based	Q2	£2,200	September 2012
Customer Services – Contact Centre	Following the transfer of the contact centre to the Council from Cambridgeshire County Council, our review will focus on the arrangements in place for the	Systems Based	Q2	£2,800	September 2012

Audit	Overview of Internal Audit Coverage	Internal Audit Approach	Proposed Timing	Fee	Target Corporate Governance Committee
	training of staff and monitoring of performance within the Contact Centre.				
Section 106	To review compliance with Policies and Procedures in relation to Section 106 planning.	Systems Based	Q1	£2,750	September 2012
ICT Review	This is a key area of operation which supports the Council's departments. The scope of this review is to be agreed with management prior to the start of the review.	To be confirmed	Q2	£4,000	December 2012
Annual Statement Governance	To aid management in the compilation of the Annual Governance Statement to ensure that this is an accurate reflection of priority areas.	Advisory	Q4	£5,200	March 2013
Follow Up	To meet internal auditing standards and to provide management with ongoing assurance regarding implementation of recommendations.	Follow up review	Q4	£1,600	June 2013
Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning ▪ Preparation for, and attendance at, Corporate Governance Committee meetings ▪ Regular liaison and progress updates ▪ Liaison with external audit Preparation of the annual internal audit opinion	-	Ongoing	£11,500	N/A