

RSM Tenon

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Internal Audit Annual Report 2011/12

Presented at the Corporate Governance Committee meeting of: 29 June 2012

Approved by: Dan Harris as Head of Internal Audit

Recommendation: That the Committee **Notes** the Internal Audit Annual Report

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1 INTRODUCTION

1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of South Cambridgeshire District Council's assurance cycle and if used properly can help to inform and update the organisation's risk profile. Internal Audit is just one of the sources of assurance available to the Council and Corporate Governance Committee.

The definition of internal audit, as described in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, is set out below:

- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance 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.
- Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work.

1.2 Annual Governance Statement

The preparation and publication of an annual governance statement in accordance with the CIPFA / SOLACE Good Governance Framework is necessary to meet the statutory requirement set out in the Accounts and Audit Regulations, which set out a statutory requirement for authorities to prepare a statement of internal control in accordance with "proper practices".

As your internal audit provider, the assignment opinions that RSM Tenon provides the organisation during the year are part of the framework or assurances that assist the Council prepare an informed governance statement.

2 INTERNAL AUDIT ASSURANCE FOR 2011/12

2.1 Context

As the provider of the internal audit service to South Cambridgeshire District Council we provide the Council through the Corporate Governance Committee with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of South Cambridgeshire District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

2.2 Internal Audit Assurance Statement

This annual Head of Internal Audit opinion is provided to South Cambridgeshire District Council by RSM Tenon Limited.

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of South Cambridgeshire District Council's arrangements.

In our opinion, based upon the work we have undertaken, for the 12 months ended 31 March 2012 South Cambridgeshire District Council has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

2.3 Scope of the Internal Audit opinion

In arriving at our opinion, we have taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2012 (see Appendix A for a summary of audits);
- The results of follow-up action taken in respect of audits from previous years;
- Whether fundamental or significant recommendations have been accepted by management and, if not, the consequent risks;
- The affects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports or other assurance providers to the Corporate Governance Committee and/or Council;
- Whether or not any limitations have been placed on the scope of internal audit;

- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

2.4 The Basis of the Opinion

Governance

Our review of the Council's Governance arrangements included a number of key aspects of governance linked to the CIPFA 'Good Governance in Local Government Framework'. The Framework includes systems, processes, culture and values by which the Council is directed and controlled as well as the extent of activities that they engage with. We confirmed that the Annual Governance Statement for the period 2010/11 had been clearly linked to the Framework. The responsibilities and functions assigned to the Executive, Committees and Officers of the Council were contained within the Constitution of the Council and relevant delegations are in place. However, we highlighted that the vision, aims and objectives agreed for 2011/12 were not collated into the usual Corporate Plan this year, but were included as part of the priority setting. A Long Term Vision was being developed at the time of our review. Since our review this has been completed and approved. Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the weaknesses within the process.

Risk Management

Our Risk Management coverage this year included a review of the following aspects of Risk Maturity:

- Governance;
- Risk Identification;
- Risk Assessment;
- Risk Mitigation;
- Assurance; and
- Monitoring and Reporting.

Overall we consider that the risk management framework as currently operating was adequate and effective. In most instances the recommendations we made either enhanced the controls and aligned them with best practice or sought to ensure the processes in place were adequately documented.

Our key recommendations related to the documentation and differentiation of controls, assurances and actions and the embedding of Risk Management within the organisation.

Internal Control

All 19 assurance reports issued resulted in positive assurance opinions. Ten reports received amber ratings of which three were amber red (some assurance) and seven amber green (reasonable assurance). The remaining ten reports received a green (substantial assurance) opinion. The amber red opinions related to Housing Maintenance - Planned and Cyclical (including Voids), Information Governance, and Capital Expenditure & Asset Management. There were a number of control weaknesses identified in these reports and management action plans have been put in place to address these weaknesses.

Our follow up review indicated that management had made adequate progress in implementing the recommendations raised in our prior year reports.

We have also undertaken three advisory reviews which have identified a number of recommendations to further strengthen and improve the control frameworks in place in relation to; Project Management, VAT and the areas covered in the Proactive Fraud review. We also made a number of recommendations to improve the control framework in the review undertaken at the request of the Section 151 Officer in the Housing Department.

Management have assured us that the issues raised within all of our reports issued this year will be addressed in accordance with the agreed action plans. We will undertake a follow up review during 2012/13 to confirm that the actions have been implemented within the agreed timescales.

Acceptance of Recommendations

All of the recommendations made during the year were accepted by management.

2.5 The Annual Governance Statement

The overall opinion may be used by the Council in the preparation of the annual governance statement.

2.6 Conflicts of Interest

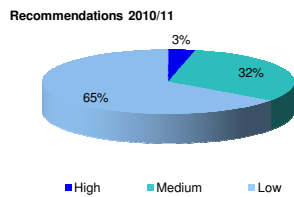
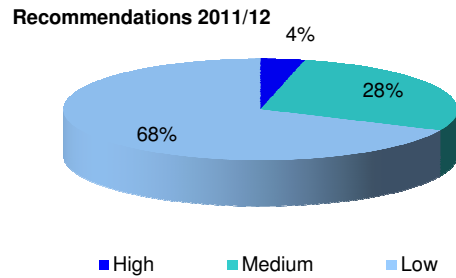
At the request of the Section 151 Officer we completed a review of within the Housing Department, we do not consider this to be a Conflict of Interest.

In addition, we have not undertaken any work or activity during 2011/12 that would lead us to declare any conflict of interests.

2.7 Benchmarking Data

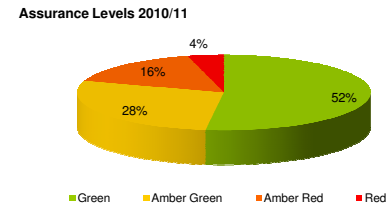
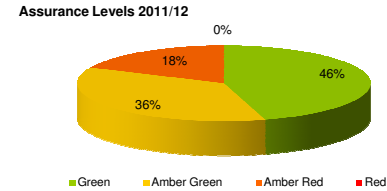
The tables below show the split of internal audit recommendations and opinions for South Cambridgeshire District Council in 2011/12 and those made in 2010/11.

Comparison of the Number of Recommendations Made



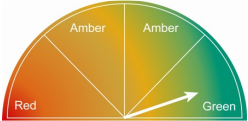
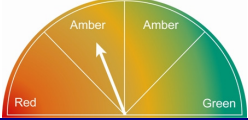
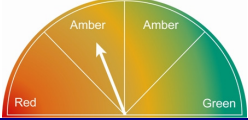
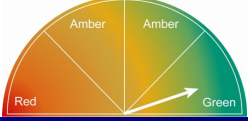
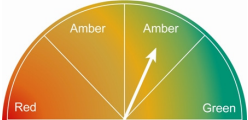
Total Number of Recommendations	High	Medium	Low
2011/12	5	35	77
2010/11	5	46	95

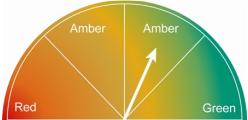
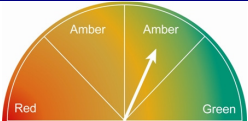
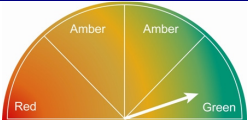
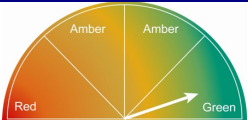
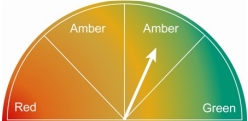
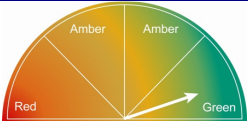
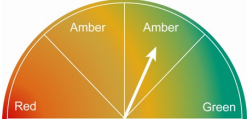
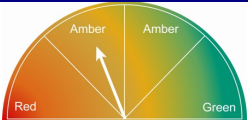
Comparison of the Levels of Assurance



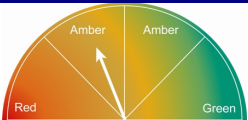
Levels of Assurance	Green	Amber / Green	Amber / Red	Red
2011/12	10	8	4	0
2010/11	13	7	4	1

APPENDIX A: INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS 2011/12

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
HR - Absence Management including the Impact of Redundancies		0	0	5	5	5
Supported Housing		0	0	1	1	1
Housing Maintenance - Planned and Cyclical (including Voids)		2	3	2	7	7
Information Governance		0	6	5	11	11
Housing Rents		0	1	3	4	4
Project Management	Advisory	-	-	-	8	8
General Ledger and Budgetary Control		0	0	3	3	3
Housing Allocations		0	1	2	3	3

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
VAT Advisory Review	Advisory	0	3	5	8	8
Governance - Good Governance Framework		0	1	4	5	5
Creditors		0	2	3	5	5
Contract Services		0	0	2	2	2
Payroll including Expenses		0	0	2	2	2
National Non Domestic Rates		0	0	8	8	8
Income and Debtors		0	0	1	1	1
Cash, Bank & Treasury Management		0	2	3	5	5
Capital Expenditure and Asset Management		1	3	3	7	7

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
Risk Maturity	Advisory	1	1	6	8	8
Council Tax		0	0	3	3	3
Reconciliation		0	0	1	1	1
Housing Benefits		0	0	0	0	0
Follow Up	Adequate	0	7	11	18	18
Proactive Fraud Review	Advisory	-	-	-	7	7
Performance Management		0	0	2	2	2
Financial Top Up Testing		0	1	0	1	1
Environmental Health – Discretionary Fees in Relation to Taxi Licencing, Water Sampling and Zoo Licencing - DRAFT		0	2	2	4	TBC

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
Partnerships		1	2	0	3	3
Total		5	35	77	132 (15 not categorised)	128 (4 not yet responded)

APPENDIX B: DEFINITIONS OF THE LEVELS OF ASSURANCE AND THE CLASSIFICATION OF RECOMMENDATIONS

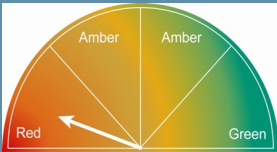
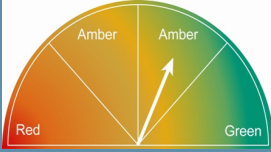
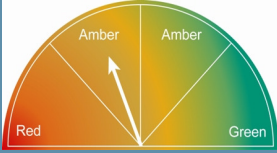
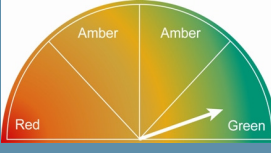
Recommendation Categorisation

Our findings and recommendations are categorised as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	

Opinions

The definitions for the level of assurance that can be given are:

Opinion	Description	Opinion	Description
	<p>Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk/area are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.</p>		<p>Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk/area are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.</p>
	<p>Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk/area are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.</p>		<p>Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk/area are suitably designed, consistently applied and effective.</p>