



South Cambridgeshire District Council

Internal Audit Strategy Update 2013/14

Presented at the Corporate Governance Committee meeting of:
19 March 2013

Recommendation: That the Committee **Endorses** the Internal Audit Strategy and Plan

Dan Harris
Head of Internal Audit

1 INTRODUCTION

This document sets out the approach we have taken to develop your internal audit strategy for 2013/14 to 2015/16 and the annual plan for 2013/14.

1.1 Role 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.

(Definition of Internal Audit: Institute of Internal Auditors)

In line with the requirements of the International Standards, published by the Institute of Internal Auditors, 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 to achieve its objectives. The opinion may also be used by the Board to support its Annual Governance Statement. This is achieved through a risk-based plan of work, agreed with management and approved by the Corporate Governance Committee.

2 DEVELOPING THE INTERNAL AUDIT STRATEGY

2.1 Issues influencing Internal Audit coverage

The organisation's objectives are the starting point in the development of our strategy for delivery of internal audit services.

We have considered our previous work and findings on your risk management processes and consider that we can place reliance on your risk registers to inform the internal audit strategy.

Appendix A reflects the range of potential issues that may affect the organisation. These were used to focus our conversations along with the organisation's assurance priorities with the senior management team on where our work would be most effective.

In preparing your strategy and more detailed operational plan we have met with the Executive Management Team.

The key changes are summarised below:

Key Areas discussed with Management and their impact on the 2013/14 plan

We have added a review of the **Welfare Reform** project as a result of the new risk added to the Strategic Risk Register.

We have delayed the review of **Human Resources** until 2013/14 given the project to be undertaken within the Council within 2013/14.

We have added a review of **Enforcement** to the plan for 2014/15 at request of management

The strategy is set out in Appendix B, with the more detailed annual plan for 2013/14 set out at Appendix C.

As well as assignments designed to provide assurance or advisory input around specific risks, the strategy includes:

- a contingency allocation, which will only be utilised should the need arise, for example, for unplanned and ad-hoc work and will be subject to prior approval by the Corporate Governance Committee;
- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to recommendations agreed by management during the prior and current financial year and will serve to inform the adequacy of the organisation's own recommendation tracking process; and

- an audit management allocation, used at Partner and Manager level for quality control, client and External Audit liaison and for preparation for and attendance at Corporate Governance Committee.

2.2 Working with other assurance providers

We intend to meet with the External Auditor to confirm the scope of the work in the areas of financial control to ensure they can continue to place their planned level of reliance on our work for 2013/14.

The Corporate Governance Committee are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes at the organisation. We will however seek to work closely with other assurance providers, such as External Audit to ensure that duplication is minimised and a suitable breadth of assurance obtained.

3 INTERNAL AUDIT RESOURCES

3.1 Your Internal Audit Team

Your internal audit team is led by Dan Harris as Head of Internal Audit.

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.

3.2 Internal Audit Fees

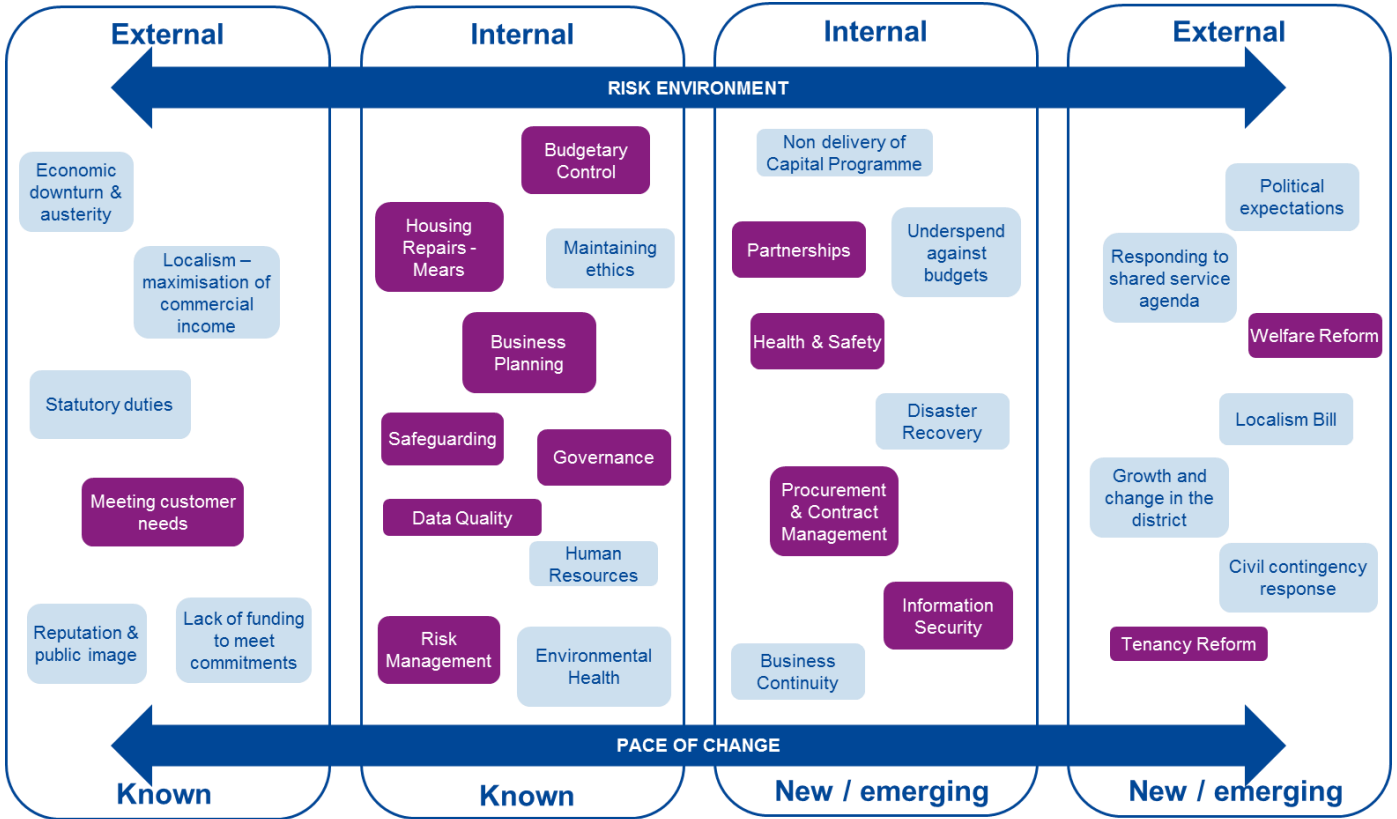
The full year cost for the Internal Audit plan would be £84,440. However, please note it is anticipated that Q1 reviews only will be delivered by RSM Tenon and the fee relating to these audits will be £20,800.

4 CONSIDERATIONS FOR THE CORPORATE GOVERNANCE COMMITTEE

- Does the Strategy for Internal Audit (as set out at Appendix B) cover the organisation's key risks as they are recognised by the Corporate Governance Committee?
- Does the detailed internal audit plan for the coming financial year (as set out at Appendix C) reflect the areas that the Corporate Governance Committee believes should be covered as priority?
- Is the Committee satisfied that sufficient assurances are being received by the Authority to monitor the organisation's risk profile effectively, including any emerging issues / key risks (see Appendix A) not included in our annual plan?

APPENDIX A: ISSUES AFFECTING SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

The chart below reflects some of the current issues facing the organisation. Those topics which have been highlighted (in purple) are those where internal audit coverage is planned in the coming year.



APPENDIX B: UPDATED STRATEGY FOR INTERNAL AUDIT 2013/14 – 2015/16

Risk Based Assurance

Auditable Areas	Risks	2012/13	2013/14	2014/15
Welfare Reform Project	<p>Welfare Reform</p> <p>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>Medium Term Financial Strategy (MTFS)</p> <p>Financial Planning and Budgetary Control</p>	<p>Medium Term Financial Strategy (MTFS)</p> <p>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 	✓		✓

Auditable Areas	Risks	2012/13	2013/14	2014/15
	<ul style="list-style-type: none"> - 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, <p><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.</p>			
Planning and Growth	<p>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</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.</p>	✓		✓
Supported Housing	<p>STR12 - Supported Housing</p> <p>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</p>	✓		✓ (New Contract)
Business Planning	<p>HRA Business Plan: Government policy changes</p> <p>Government decides to reopen the</p>		✓	

Auditable Areas	Risks	2012/13	2013/14	2014/15
	debt settlement, <i>leading to</i> increased debt requirement, <i>resulting in</i> reduced housing programme.			
Human Resources	Equalities The Council is successfully challenged over not complying with general equalities legislation or legislation specific to public and local authority bodies, <i>leading to</i> possible Commission for Human Rights and Equalities inspection, <i>resulting in</i> reduction in reserves available to support balanced MTFS, adverse publicity and effect on reputation.			✓

Core Assurance

Audit Area	Outline scope	2012/13	2013/14	2014/15
Corporate Governance	Annual Review of the Authority's Governance processes.	✓	✓	✓
Risk Management	Annual Review of the Authority's Risk Management processes.	✓	✓	✓
Annual Governance Statement	To ensure that the Annual Governance Statement is an accurate reflection of priority areas.	✓	✓	✓

Financial Controls (including work allowing greater external audit reliance on our work)

Systems	Source of Requirement	2012/13	2013/14	2014/15
Income & Debtors	To provide assurance over the core finance systems and to meet External Audit Requirements.	✓	✓	✓
Budgetary Control		✓	✓	✓
General Ledger		✓	✓	✓
Creditors		✓	✓	✓
Cash, Banking & Treasury Management		✓	✓	✓
Payroll (including Expenses & Pensions)		✓	✓	✓
Capital Expenditure and Asset		✓	✓	✓

Management				
Procurement		✓	✓	✓
NNDR		✓	✓	✓
Council Tax		✓	✓	✓
Housing Benefits		✓	✓	✓
Housing Rents		✓	✓	✓
Top up testing		✓	✓	✓
Reconciliation testing		✓	✓	✓

Other Internal Audit Activity

Activity	Rationale	2012/13	2013/14	2014/15
Safeguarding	A review to ensure the Authority is 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
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			✓

Activity	Rationale	2012/13	2013/14	2014/15
	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	The Authority has outsourced the contract for responsive repairs/void works and the review will include the partnering arrangements in place and the Council monitoring of the partnership arrangements. (to include both Planned and Responsive Maintenance)	✓	✓	✓
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 2013/14 will include the Contact Centre, which has moved to South Cambridgeshire District Council.		✓	
Enforcement	To ensure that a consistent methodology has been applied and compliance with policies and procedures in relation to enforcement.			✓
Section 106	Section 106 planning gain is an important element of any development and maximum benefit should be achieved.	✓		
ICT Review	IT is a key areas core to the operation of the Council's systems.	✓	✓	✓

Activity	Rationale	2012/13	2013/14	2014/15
Proactive Fraud work	Proactive fraud review to ensure compliance with best practice of Managing the Risk of Fraud.		✓	
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 C: INTERNAL AUDIT PLAN 2013/14

Audit	Internal Audit Coverage	Internal Audit Approach	Audit Fees	Proposed Timing	Corporate Governance Committee
Assurance and Advisory Work to Address Specific Risks					
Welfare Reform Project	<p>Welfare Reform</p> <p>Proposed radical changes to benefits, including possibility of localised council tax benefits and introduction of a universal credit system,</p> <p><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 <p>dislocation of private sector housing market.</p>	To be confirmed - Assurance / Advisory	£2,800	Q2	December 2013
Business Planning	<p>HRA Business Plan: Government policy changes</p> <p>Government decides to reopen the debt settlement,</p> <p><i>leading to increased debt requirement,</i></p> <p><i>resulting in reduced housing programme.</i></p>	Assurance	£3,200	Q1	June 2013
Compliance					
Corporate Governance	Review of the Governance arrangements in place within the Council.	Assurance	£2,800	Q2	December 2013
Risk Management	<ul style="list-style-type: none"> ▪ Risk Management Strategy ▪ Risk Register ▪ Risk Reporting ▪ Identification and use of Assurances. 	Assurance	£2,800	Q3	March 2014

Annual Governance Statement	To ensure that the Annual Governance Statement is an accurate reflection of priority areas.	Advisory	£3,200	Q4	June 2014
Financial Controls					
Income & Debtors	<ul style="list-style-type: none"> Raising and authorisation of invoices; Chasing of outstanding debts; Debt write off. 	Key Financial Controls	£1,600	Q3	December 2013
Budgetary Control	<ul style="list-style-type: none"> Review of monthly budget reports; Budget monitoring meetings; Accuracy of budget reports; Identification of variances and actions taken. 	Key Financial Controls	£2,000	Q3	March 2014
General Ledger	<ul style="list-style-type: none"> Access Controls; Journals; Month end closedown and reconciliation process. 	Key Financial Controls	£1,600	Q3	December 2013
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	£1,600	Q3	December 2013
Cash, Banking & Treasury Management	<ul style="list-style-type: none"> Receipt of cash; Processing of cash payments; Bank mandate; Bank reconciliation; Control over loans and investments where appropriate; 	Key Financial Controls	£2,000	Q3	December 2013
Payroll (including Expenses & Pensions)	<ul style="list-style-type: none"> Starters; Leavers; Changes to contract details; Salary sacrifice; Payment authorisation & run; Authorisation of expenses claims. Reporting. 	Key Financial Controls	£2,250	Q2	December 2013
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 Financial Controls	£2,000	Q3	March 2014
Procurement	<ul style="list-style-type: none"> Procurement and Value for Money Strategy; Compliance with the SFI's / SO's; Evidence of obtaining quotations 	Key Financial Controls	£2,250	Q2	September 2013

	<ul style="list-style-type: none"> and tenders; Maintenance of tender register; Approach to monitoring spend within the Authority 				
NNDR	<ul style="list-style-type: none"> Procedures & training; Review of charges; Processing of discounts / exemptions; Processing bills; Debt recovery Reconciliations. 	Key Financial Controls	£2,000	Q3	March 2014
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	£2,000	Q3	March 2014
Housing Benefits	<ul style="list-style-type: none"> Procedures & training; Processing of applications; Checking of applications; Monitoring and Reporting. 	Key Financial Controls	£3,650	Q3	March 2014
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	£2,000	Q2	September 2013
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	£2,650	Q4	June 2014
Reconciliation testing	Additional financial testing to ensure that reconciliations are undertaken and reviewed in line with External Audit requirements	Key Financial Controls	£1,800	Q3	March 2014
Other Internal Audit Coverage					
Safeguarding	Review of the safeguarding arrangements against the self-assessment checklist on 'The Implementation of the Key Safeguarding Employment Standards'.	Checklist	£2,000	Q1	June 2013
Health and Safety	Review of the Health and Safety procedures held within the council to confirm if these are fit for purpose, regularly reviewed and the	System Based	£2,250	Q1	June 2013

	implementation of these monitored and reported.				
Performance Management	A review to ensure that the performance indicator systems have been established within the Authority that link to the Corporate Plan and that these are being monitored. This will include sample testing some performance indicator back to source systems.	Systems Based	£2,200	Q4	June 2014
Environmental Health / Waste Management	To assist in ensuring an effective Environmental Health and Waste 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.	Systems Based	£2,250	Q4	June 2014
Repairs – Partnership Arrangements	To follow up on the previous work completed on the Repairs Partnership arrangements.	Systems Based & Follow up	£4,000	Q2	December 2013
Housing Allocations and Voids	A review of the letting allocations process to ensure that properties are promptly identified, applicants chosen and void times minimised.	Systems Based	£2,200	Q2	September 2013
Customer Services – Contact Centre	Review of the Contact Centre including training, monitoring, reporting and dealing with complaints.	Systems Based	£2,250	Q1/2	September 2013
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	£4,000	Q1/2	September 2013
Proactive Fraud work	Scope to be agreed with Proactive area of review to be agreed with management.	To be confirmed	£3,650	Q1	September 2013
Follow Up	To meet internal auditing standards and to provide management with ongoing assurance regarding implementation of recommendations.	Follow up review	£1,600	Q4	June 2014

Management	<p>This will include:</p> <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. ▪ Handover to new Internal Auditors ▪ Preparation of the interim / annual internal audit opinion. 	-	£13,800	Ongoing	As used
Total			£84,400		

Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report, together with any attachments, is provided pursuant to the terms of our engagement. The use of the report is solely for internal purposes by the management and Board of our client and, pursuant to the terms of the engagement, it should not be copied or disclosed to any third party or otherwise quoted or referred to, in whole in part, without our written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2012 - 2013 RSM Tenon Limited

The term "partner" is a title for senior employees, none of whom provide any services on their own behalf.

RSM Tenon Limited is a subsidiary of RSM Tenon Group PLC. RSM Tenon Group PLC is an independent member of the RSM International network. The RSM International network is a network of independent accounting and consulting firms each of which practices in its own right. RSM International is the brand used by the network which is not itself a separate legal entity in any jurisdiction.

RSM Tenon Limited (No 4066924) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB. England