

South Cambridgeshire District Council

Internal Audit Annual Report

Year ended 31 March 2013

Presented at the Corporate Governance Committee meeting of: 28 June
2013

Daniel Harris
Head of Internal Audit

Recommendation: The Corporate Governance Committee **Notes** the Internal Audit
Annual Report

1 INTERNAL AUDIT OPINION

1.1 Context

As the provider of the internal audit service to South Cambridgeshire District Council we are required to provide the Section 151 Officer and the Corporate Governance Committee 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 is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

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

1.2 Internal Audit Opinion 2012/2013

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.

For the 12 months ended 31 March 2013, based on the work we have undertaken, our opinion regarding the adequacy and effectiveness of South Cambridgeshire District Council's arrangements for governance, risk management and control is as follows:

Governance

The Council had adequate and effective Governance processes in place.

Risk Management

The Council had adequate and effective risk management arrangements in place.

Control

The Council had adequate and effective control arrangements in place. We have undertaken 23 assurance reviews in 2012/13, all of which resulted in positive opinions with the exception of a review of Repairs – Partnership Arrangements which resulted in a red opinion. We followed up the progress of implementing these recommendations during the year confirmed that adequate progress had been made.

1.3 The Basis of the Opinion

1.3.1 Governance

The 2012/13 audit was an annual review of the Council's Governance processes and is a key element of the Council's high level control framework. The Council can take reasonable assurance that the controls upon which the organisation relies to manage the area of Governance were suitably designed, consistently applied and effective. The scope of this review was focused around compliance by Portfolios with their stated roles and responsibilities and included interviewing the Leader and the Environmental Services Portfolio Holder to gain their views of the decision making process.

1.3.2 Risk Management

This is a key element for supporting the production of the Annual Governance Statement and also provides on-going assurance to the Council over the effectiveness of controls identified to mitigate principal risks that threaten the achievement of the Council's strategic objectives.

The Council can take reasonable assurance that the controls upon which the organisation relies to manage the area of Governance were suitably designed, consistently applied and effective.

This review considered the documentation and maintenance of the Risk Management Strategy and the maintenance and review of both the strategic risk register and the operational risk register.

1.3.3 Control

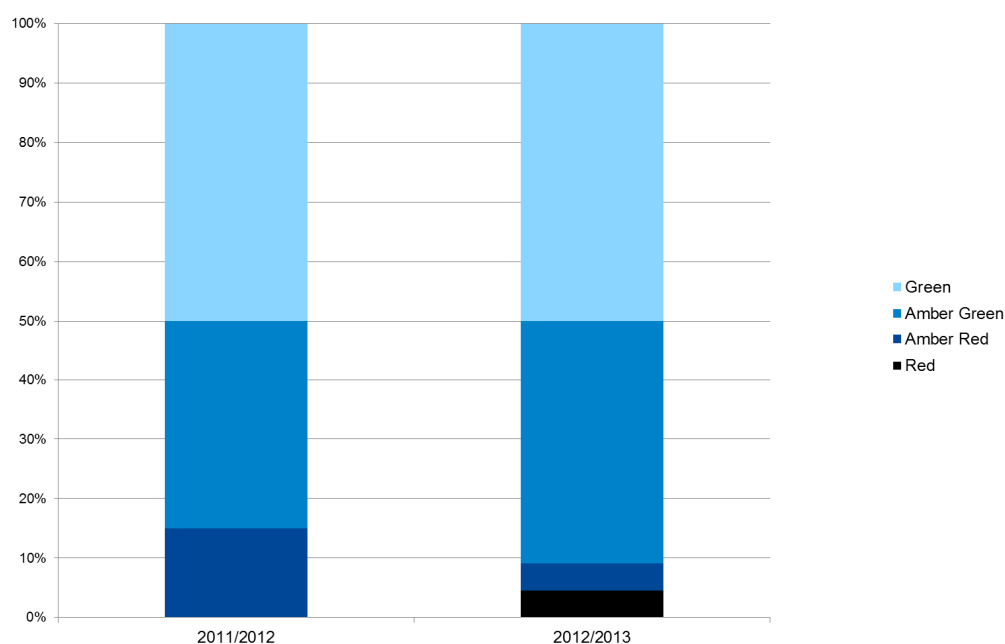
We have undertaken 23 reviews on the internal control framework. Of these reviews 12 were given a Green (substantial assurance) opinion, 9 were given an Amber / Green (reasonable assurance) opinion, 1 was given an Amber / Red (some assurance) opinion and 1 was given a Red (cannot take assurance) opinion. In addition, we undertook 2 follow up review of the recommendations previously made which concluded that adequate progress had been made to implement the recommendations.

The Red opinion related to a review of Repairs – Partnership Arrangements where a number of issues were identified in relation to management information flows. A subsequent follow up of this review confirmed that adequate progress had been made in implementing the recommendations made.

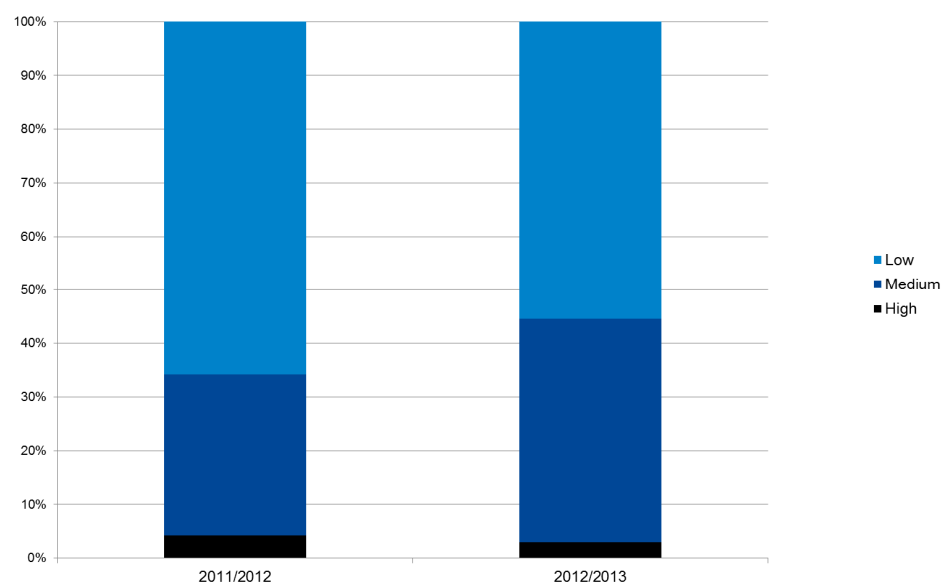
1.3.4 Acceptance of Recommendations

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

1.3.5 Comparison of Internal Audit Opinions (Assurance assignments) in 2012/2013 compared with 2011/2012



1.3.6 Comparison of Internal Audit recommendations made 2012/2013 compared with 2011/2012



1.3.7 *Reliance Placed Upon Work of Other Assurance Providers*

In forming our opinion we have not placed any direct reliance on other assurance providers.

2 OUR PERFORMANCE

2.1 Wider value-adding delivery

As part of our client service commitment, during 2012 we issued 10 local government client updates and four general briefings. In addition:

- We provided benchmarking within all of our reports on the number and category of recommendations and assurance opinions across organisations similar to the Council.
- We have made suggestions throughout our audit reports based on our knowledge and experience in the public sector to provide areas for consideration.
- We have provided support on the revised approach to the Annual Governance Statement including workshop with management and members and assistant with drafting the Annual Governance Statement.

2.2 Conformance with Internal Audit Standards

RSM Tenon affirms that our internal audit services to South Cambridgeshire District Council are designed to comply with the CIPFA Code of Practice for Internal Audit and the International Standards published by the Global Institute of Internal Auditors (IIA).

Under the standards, internal audit services are required to have an external quality and review at least once every five years. During 2011 RSM Tenon commissioned an external independent review of our internal audit services to provide assurance whether our approach meets the requirements set out in the International Professional Practices Framework (IPPF) published by the IIA.

The external review concluded that *“the design and implementation of systems for the delivery of internal audit provides **substantial assurance** that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”*.

In this year we have reviewed our processes to ensure we will be conformant with the Public Sector Internal Auditing Standards when they are introduced in 2013/2014.

2.3 Conflicts of Interest

We have not undertaken any work or activity during 2012/13 that would lead us to declare any conflict of interests.

APPENDIX A: INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS 2012/2013

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Audits to address specific risks					
Section 106	Section 106 planning gain is an important element of any development and maximum benefit should be achieved.	Amber Green	0	3	4
Planning and Growth	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.	Amber Green	0	1	4
Medium Term Financial Planning	Risks concerning the financial projections <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.	Green	0	0	0
Governance	Annual Review of the Authority's Governance processes.	Amber Green	0	4	3
Housing rents	To ensure that housing rents are appropriately set, collected and that rent arrears are chase in line with the Councils Policy.	Green	0	1	2
Repairs - Partnership Arrangement	Responsive Repairs for the Authority transferred to a partnership with Mears as of April 2012.	Red	1	6	3
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	Amber/Green	0	1	2

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
General Ledger	The accuracy and integrity of the general ledger is pivotal in the production of the Authority's accounts.	Green	0	0	0
Housing Allocations and Voids	To ensure that housing stock is allocated promptly to the right applicants through the choice based letting system.	Amber/Green	0	0	3
Capital Expenditure and Capital Accounting	The accuracy and integrity of the general ledger is pivotal in the production of the Authority's accounts.	Amber/Red	1	1	1
Creditors	Promptness and process of input, approval and payment of supplier invoices to ensure charges made on the Authority are valid and authorised.	Green	0	1	2
Insurances	To ensure that the Authority has appropriate insurance policies in place, that these are regularly reviewed and claims are appropriately dealt with.	Amber/Green	0	2	3
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.	Green	0	1	2
Income and 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.	Green	0	1	0
Procurement	To review the procurement/tendering process used by the Authority to ensure integrity and compliance with legislation.	Green	0	1	1
National Non Domestic Rates	To review the procurement/tendering process used by the Authority to ensure integrity and compliance with legislation.	Green	0	0	4

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Cash, Bank and 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.	Green	0	0	2
Payroll	To ensure the Authority is compliant with statutory legislation and that all payroll, pension and expense payments are correctly authorised.	Amber/Green	0	2	0
Risk Management	Annual Review of the Authority's Risk Management processes.	Amber/Green	0	0	8
Reconciliations	To meet External Audit requirements	Green	0	0	0
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.	Green	0	0	4
Housing Benefits	To ensure that benefits are accessible, correctly calculated, paid promptly, adequately monitored and accurately recorded with other related areas.	Amber / Green	0	0	1
Repairs - Partnership Arrangement Follow Up	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	Adequate	0	4	2
Network Security Control Framework	Weaknesses in the network security control environment resulting in a loss to networked systems data availability, confidentiality and integrity.	Amber / Green	0	4	0
Performance Management	Adequacy of performance management integral part of governance arrangements.	Amber / Green	0	2	2
Follow Up (Draft)	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	Adequate	1	7	2
Top Up Testing (Draft)	To meet External Audit requirements	Green	0	0	1
Total			3	42	56

We use the following levels of opinion classification within our internal audit reports:

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

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. 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.

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