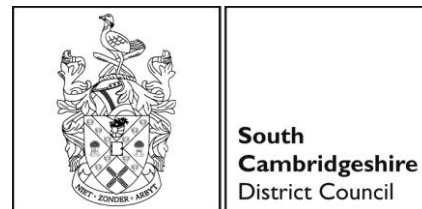


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10 March 2016

To:

Vice-Chairman – Councillor Tony Orgee  
Members of the Corporate Governance Committee – Councillors Tom Bygott,  
Andrew Fraser, Christopher Cross, Roger Hall, Douglas de Lacey,  
David McCraith, Bridget Smith, John Williams, Simon Edwards and  
Peter Topping

Quorum: 3

Dear Councillor

You are invited to attend the next meeting of **CORPORATE GOVERNANCE COMMITTEE**, which will be held in **MONKFIELD ROOM, FIRST FLOOR** at South Cambridgeshire Hall on **FRIDAY, 18 MARCH 2016 at 9.00 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully  
**JEAN HUNTER**  
Chief Executive

**The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.**

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AGENDA		PAGES
1.	<b>Apologies for Absence</b> To receive Apologies for Absence from Committee members.	
2.	<b>Declarations of Interest</b>	
3.	<b>Election of Chairman</b>	
4.	<b>Appointment of Vice Chairman</b>	
5.	<b>Minutes of Previous Meeting</b> To confirm the minutes of the meeting held on 25 September as a correct record.	1 - 4
6.	<b>Name of Committee</b> At the request of the previous chairman the Committee is invited to	

consider an alternative name for this Committee to recognise its main function as an Audit Committee. Any recommendation would need to be made to Council in due course.

## **AUDIT REPORTS**

<b>7.</b>	<b>Internal Audit Plan 2016/17</b>	<b>5 - 34</b>
<b>8.</b>	<b>Internal Audit Progress Report</b>	<b>35 - 44</b>
<b>9.</b>	<b>External Audit Plan 2015/16</b>	<b>45 - 62</b>
<b>10.</b>	<b>External Audit: Certificate of Claims and Returns Annual Report 2014/15</b>	<b>63 - 72</b>

## **INFORMATION ITEMS**

- 11. Matters of Topical Interest**
- 12. Date of Next Meeting**  
To note the next meeting dates:
  - 24 June 2016 at 9am
  - 23 September 2016 at 9am

### **OUR LONG-TERM VISION**

South Cambridgeshire will continue to be the best place to live, work and study in the country. Our district will demonstrate impressive and sustainable economic growth. Our residents will have a superb quality of life in an exceptionally beautiful, rural and green environment.

### **OUR VALUES**

We will demonstrate our corporate values in all our actions. These are:

- Working Together
- Integrity
- Dynamism
- Innovation

## **GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL**

### **Notes to help those people visiting the South Cambridgeshire District Council offices**

While we try to make sure that you stay safe when visiting South Cambridgeshire Hall, you also have a responsibility for your own safety, and that of others.

#### **Security**

When attending meetings in non-public areas of the Council offices you must report to Reception, sign in, and at all times wear the Visitor badge issued. Before leaving the building, please sign out and return the Visitor badge to Reception.

Public seating in meeting rooms is limited. For further details contact Democratic Services on 03450 450 500 or e-mail [democratic.services@scambs.gov.uk](mailto:democratic.services@scambs.gov.uk)

#### **Emergency and Evacuation**

In the event of a fire, a continuous alarm will sound. Leave the building using the nearest escape route; from the Council Chamber or Mezzanine viewing gallery this would be via the staircase just outside the door. Go to the assembly point at the far side of the staff car park opposite the staff entrance

- **Do not** use the lifts to leave the building. If you are unable to use stairs by yourself, the emergency staircase landings have fire refuge areas, which give protection for a minimum of 1.5 hours. Press the alarm button and wait for help from Council fire wardens or the fire brigade.
- **Do not** re-enter the building until the officer in charge or the fire brigade confirms that it is safe to do so.

#### **First Aid**

If you feel unwell or need first aid, please alert a member of staff.

#### **Access for People with Disabilities**

We are committed to improving, for all members of the community, access to our agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you. All meeting rooms are accessible to wheelchair users. There are disabled toilet facilities on each floor of the building. Infra-red hearing assistance systems are available in the Council Chamber and viewing gallery. To use these, you must sit in sight of the infra-red transmitter and wear a 'neck loop', which can be used with a hearing aid switched to the 'T' position. If your hearing aid does not have the 'T' position facility then earphones are also available and can be used independently. You can get both neck loops and earphones from Reception.

#### **Toilets**

Public toilets are available on each floor of the building next to the lifts.

#### **Recording of Business and Use of Mobile Phones**

We are open and transparent about how we make decisions. We allow recording, filming and photography at Council, Cabinet and other meetings, which members of the public can attend, so long as proceedings at the meeting are not disrupted. We also allow the use of social media during meetings to bring Council issues to the attention of a wider audience. To minimise disturbance to others attending the meeting, please switch your phone or other mobile device to silent / vibrate mode.

#### **Banners, Placards and similar items**

You are not allowed to bring into, or display at, any public meeting any banner, placard, poster or other similar item. Failure to do so, will result in the Chairman suspending the meeting until such items are removed.

#### **Disturbance by Public**

If a member of the public interrupts proceedings at a meeting, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared. The meeting will be suspended until order has been restored.

#### **Smoking**

Since 1 July 2008, South Cambridgeshire District Council has operated a Smoke Free Policy. No one is allowed to smoke at any time within the Council offices, or in the car park or other grounds forming part of those offices.

#### **Food and Drink**

Vending machines and a water dispenser are available on the ground floor near the lifts at the front of the building. You are not allowed to bring food or drink into the meeting room.

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# Agenda Item 5

## **SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

Minutes of a meeting of the Corporate Governance Committee held on  
Friday, 25 September 2015 at 9.00 a.m.

**PRESENT:** Councillor Francis Burkitt – Chairman  
Councillor Tony Orgee – Vice-Chairman

**Councillors:** Tom Bygott Roger Hall  
David McCraith Bridget Smith  
John Williams

**Officers:** Patrick Adams Senior Democratic Services Officer  
Alex Colyer Executive Director, Corporate Services  
Fiona McMillan Legal & Democratic Services Manager and  
Monitoring Officer  
Caroline Ryba Head of Finance  
Sally Smart Principal Accountant Financial & Systems

**External:** Rachel Brittain Ernst & Young  
Steve Crabtree Shared Head of Internal Audit  
Mark Hodgson Ernst & Young

Councillors Anna Bradnam, Simon Edwards and Hazel Smith were in attendance, by invitation.

### **1. APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Andrew Fraser and Douglas de Lacey.

### **2. DECLARATIONS OF INTEREST**

None.

### **3. MINUTES OF PREVIOUS MEETING**

The minutes of the meeting held on 26 June 2015 were agreed as a correct record.

### **4. INTERNAL AUDIT PROGRESS REPORT 2015-16**

Steve Crabtree, Shared Head of Internal Audit, presented this report which updated the Committee on the progress being made against the delivery of the 2015/16 Internal Audit Plan.

#### **Responsive Repairs**

Steve Crabtree assured the Committee that whilst the audit of the response repairs contract had identified ineffective monitoring arrangements, significant improvements had been made since then. The Committee noted that the contract provided better value for money when compared to the Council's peers.

The Committee **NOTED** the progress against the delivery of the 2015/16 Internal Audit Plan.

## 5. **EXTERNAL AUDIT RESULTS 2014-15**

Mark Hodgson, External Auditor, presented external audit's Audit Results Report for 2014/15.

The Chairman thanked Mark Hodgson for including a definition of materiality and tolerable error in the report.

### **Business rates**

The Executive Director explained that there had been two successful business rates appeals from purpose built doctors' surgeries, which had been settled for a higher amount than expected. However, the Committee noted that the cost of any new appeals were likely to be less than those just settled, as they could not be backdated to before 2010. Mark Hodgson stated that he was satisfied with the controls put in place by the Council, which included receiving estimates from independent specialists on what the overall costs were likely to be. The Executive Director informed the Committee that the issue of appeals had been reflected in the strategic risk register for a number of years.

### **Misstatements**

The Committee noted that external audit had identified an uncorrected misstatement within the draft financial statements as set out in their report. The Principal Accountant Financial and Systems explained that this would be corrected in future years, and was well below the agreed materiality threshold for 2014/15. Members concurred with officers not to adjust for this issue.

Mark Hodgson explained that £3,106,000 had been classified as a long term investment, when it should have been short term. This had been corrected.

### **Reserves**

Mark Hodgson declared that the Council's reserves were adequate to cover the budget gap identified in the Medium Term Financial Strategy, even if one assumed that none of the anticipated savings were able to be achieved. Councillor Simon Edwards, Finance and Staffing Portfolio Holder, stated that he would be monitoring the Government's policy on councils' reserves and how this could affect this authority's financial resilience.

### **Shared services**

The Executive Director explained that from 2015/16 Ernst & Young would be appointing a single Audit Partner and Manager to cover the City, Huntingdonshire and South Cambridgeshire. It was expected that this would provide a joined-up approach across the shared services and so avoid duplication of effort.

### **Earlier deadlines for 2017/18**

The Committee noted that the deadline for completing the accounts would be brought forward two months to the end of July for the 2017/18 accounts.

Mark Hodgson reported that the Council had prepared its financial statements adequately and had shown good governance over the financial statements process.

The Committee **NOTED** the report.

## 6. **EXTERNAL AUDIT REQUEST FOR LETTER OF REPRESENTATION**

The Committee **NOTED** the request for a letter of representation from External Audit.

## 7. STATEMENT OF ACCOUNTS 2014-15

The Executive Director presented this report, which invited the Committee to approve the 2014/15 Statement of Accounts and agree the letter of representation.

The Committee unanimously **APPROVED** the 2014/15 Statement of Accounts and **AGREED** the letter of representation from the Council.

The Chairman thanked the Executive Director, the Principal Accountant Financial and Systems and their colleagues for all their efforts in producing the accounts within the timescales and to such a high standard.

## 8. REGULATION OF INVESTIGATORY POWERS ACT (RIPA) - ANNUAL REPORT AND POLICY REVIEW

The Head of Legal and Democratic Services presented this report, which invited the Committee to review the Council's Regulation of Investigatory Powers Act (RIPA) policy and to note the use of RIPA powers over the last year.

The Header of Legal and Democratic Services explained that the Council only used the RIPA powers as a last resort, preferring to use other methods of investigation. This explained why the RIPA powers had not been used at all during 2014/15.

The Committee

**NOTED** the information contained in the report about the Council's use of surveillance powers in the last quarter and the annual summary of RIPA usage.

**AGREED** that no further changes in the Council's RIPA policy were necessary at this time.

## 9. TREASURY MANAGEMENT ANNUAL REPORT 2014-15

The Principal Accountant Financial and Systems presented this report on the treasury management function for 2014/15.

### Managing risk

In response to questioning the Principal Accountant Financial and Systems explained that effective management and control of risk were the prime objectives of the Council's treasury management strategy; the interest rate earned was secondary to this.

### Returns from South Cambs Limited

The 3.12% return on one-to-five year investments was far higher than the average return compared to other authorities in the benchmarking club on treasury management, which was largely due to the interest charged on the loan to South Cambs Limited.

The Committee **NOTED** the creditable performance of the treasury management function.

## 10. LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER 2015

The Head of Legal and Democratic Services introduced this item by highlighting the fact that the Government were consulting on a proposal to extend the jurisdiction of the Local Government Ombudsman to include parish councils.

The Committee noted that the Corporate and Customer Services Portfolio Holder received quarterly reports on complaints received by the Council.

Steve Crabtree agreed to look at the possibility of auditing the way in which the Council handled Freedom of Information Act requests.

The Committee **NOTED** the Local Government Ombudsman Annual Review Letter 2015.

**11. MATTERS OF TOPICAL INTEREST**

The Chairman distributed a copy of a recent local news article, which described an accounting error made by a neighbouring authority. He mentioned that this highlighted the importance of accurate accounts and a comprehensive audit.

**12. DATE OF NEXT MEETING**

The Committee agreed the following meeting dates:

- Friday 18 March 2016 at 9am
- Friday 24 June 2016 at 9am
- Friday 23 September 2016 at 9am

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**The Meeting ended at 10.15 a.m.**

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**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

**CORPORATE GOVERNANCE COMMITTEE**

**18 MARCH 2016**

**INTERNAL AUDIT PLANS FOR 2016 / 2017**

**RECOMMENDATION:**

**That Corporate Governance Committee endorse:**

- **The Audit Charter;**
- **The Internal Audit Code of Ethics; and**
- **The Internal Audit Plan and Strategy 2016 / 2017**

## 1. INTRODUCTION

- 1.1 This is the Internal Audit Plan for 2016 / 2017 for consideration by Corporate Governance Committee, together with the associated documents which have been established in accordance with best practice as laid down in the Public Sector Internal Audit Standards (PSIAS).

## 2. THE AUDIT CHARTER (APPENDIX 1)

- 2.1 The PSIAS have been primarily introduced to:

- Define the nature of internal auditing;
- Set basic principles for carrying out internal audit;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

- 2.2 As part of evidencing that these requirements are being adhered to, there is a duty on Internal Audit to have a Charter which demonstrates how these elements are being handled and managed.

## 3. CODE OF ETHICS (APPENDIX 2)

- 3.1 The Code of Ethics sets out the expected behaviours of Internal Audit staff in relation to service delivery. The basis of standards of conduct mirrors the obligations as per the PSIAS as well as any organisational Codes of Ethics or Conduct relating to their employer.

## 4. INTERNAL AUDIT PLAN (APPENDIX 3)

- 4.1 The overarching objective of the Audit Plan is to provide a comprehensive programme of review work, sufficient to enable an informed annual opinion and to develop the organisation's Annual Governance Statement. We have produced an Audit Plan which satisfies the obligations of the PSIAS, and provides an acceptable minimum level of audit coverage capable of generating the requisite audit assurances to the organisation, whilst also being affordable. There are activities identified within the plan where assurance will be obtained from our shared service partners who are the lead authority for certain services.

- 4.2 The Internal Audit Plan for 2016 / 2017 has been developed using a risk-based approach. The plan has been formulated from reviews of the following:

- i) Corporate and service level risks and an assessment of mitigating controls;
- ii) Areas of significant change or concern within the council; and
- iii) Key projects / partnerships being undertaken

- 4.3 The areas requiring assurance have been allocated over the objectives defined in the Corporate Plan in order to provide a clear link that audit activity is aligned to the Council vision.
- 4.4 If there are any significant additional requests required by Members or officers which leads to the potential for resources required exceeding the amount set-aside, then the shared HoIA will establish the course of action to be taken in consultation with the Executive Director (Corporate Services). In the event of this occurring, a separate report will be produced to inform all Members of the Committee.
- 4.5 The results of the work set out in the Internal Audit plan will be the production of the annual opinion by the HoIA for this Committee.

## 5. CONSULTATION

- 5.1 The documents submitted for endorsement have been through extensive consultation with all Departmental Management Teams prior to referral to Executive Management Team in February 2016.

Report Author:	Steve Crabtree
Position:	Shared Head of Internal Audit (for Peterborough UA / Cambridge City / South Cambridgeshire Councils)
Contact:	Peterborough Office: 01733 384557 Cambridge Office: 01223 458181 South Cambridgeshire Office: 01954 713445

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**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**  
**INTERNAL AUDIT CHARTER**

## 1. INTRODUCTION

- 1.1 Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1 April 2013, and are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) now provide a consolidated approach to promoting further improvement in the professionalism, quality, consistency, transparency and effectiveness of Internal Audit across the whole of the public sector.
- 1.2 The PSIAS require that all aspects of Internal Audit operations are acknowledged within an Audit Charter that defines the purpose, authority and responsibilities of the service provision. The Charter therefore establishes the position of the service within South Cambridgeshire District Council (SCDC); its authority to access records, personnel and physical properties relevant to the performance of engagements; in addition to defining the scope of Internal Audit activities. There is also an obligation under the PSIAS for the Charter to be periodically reviewed and presented to the Corporate Governance Committee, the Section 151 Officer and senior management. This Charter will therefore be revisited annually to confirm its ongoing validity and completeness, and be circulated in accordance with the requirements specified above.

## 2. PURPOSE

- 2.1 In accordance with the PSIAS, Internal Auditing is defined as:

*"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."*

- 2.2 However, it should also be appreciated that the existence of Internal Audit does not diminish the responsibility of senior management to establish appropriate and adequate systems of internal control and risk management. Internal Audit is not a substitute for the functions of senior management, who should ensure that Council activities are conducted in a secure, efficient and well-ordered manner with arrangements sufficient to address the risks which might adversely impact on the delivery of corporate priorities and objectives.

## 3. AUTHORISATION

- 3.1 The requirement for an Internal Audit Service is outlined within the Accounts and Audit Regulations 2003, as amended in 2006 and 2011, which state that *"a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control"*. This statutory requirement for continuous Internal Audit has been formally recognised and endorsed within SCDC's Constitution.

3.2 Further, there are other requirements place upon the Chief Audit Executive (see Section 4: Organisation and Relationships), to fulfil all aspects of CIPFA's Statement on the Role of the Head of Internal Audit in Public Sector Organisations, whilst the Council's Constitution makes Internal Audit primarily responsible for carrying out an examination of the accounting, financial and other operations of the Council, under the independent control and direction of the Section 151 Officer. The role of Section 151 Officer at SCDC is fulfilled by the Executive Director (Corporate Services).

3.3 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of the organisation's:

- Records, documents and correspondence (manual and electronic) relating to any financial and other transactions;
- Physical properties, i.e. premises and land, plus cash, stores or any other Council property; and
- Personnel – requiring and receiving such explanations as are necessary concerning any matter under examination and generally assisting the Internal Audit activity in fulfilling its roles and responsibilities.

3.4 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

#### 4. **ORGANISATION AND RELATIONSHIPS**

4.1 Within the PSIAS, the terms 'Chief Audit Executive,' 'Board' and 'Senior Management' are used to describe key elements of the organisation's governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. At SCDC, the following interpretations are applied, so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council. The following terms are explained:

- Chief Audit Executive
- Board
- Senior Management
- External Audit
- Other Internal Audit Service Providers
- Other External Review and Inspection Bodies

#### 4.2 Chief Audit Executive

At SCDC, the Chief Audit Executive is the Head of Internal Audit (HoIA), part of a shared management arrangement between SCDC, Peterborough City Council (PCC) and Cambridge City Council (CCC). A Memorandum of Understanding exists between all three authorities and this agreement is subject to review. Each authority, as at February 2016, has its own internal staff. The HoIA has a direct line of reporting to a Director who is part of the Council's Leadership Team as well as access to the Chief Executive should it be required.

#### 4.3 Board

4.3.1 In the context of overseeing the work of Internal Audit, the 'Board' will be the Corporate Governance Committee of the Council, which has been established as part of its corporate governance arrangements. The Committee is responsible for the following with reference to Internal Audit:

- Internal Audit Plans;
- Progress and performance against plans;
- Annual Audit Opinion; and
- Compliance with standards.

4.3.2 Internal Audit will work closely with the committee to facilitate and support its activities.

#### 4.4 Senior Management

In the context of ensuring effective liaison between Internal Audit and senior officers, Internal Audit has regular access to Directors and Heads of Service. 'Senior Management' for the purposes of this Charter are the Executive Management Team.

#### 4.5 External Audit

Internal Audit look to minimise any potential duplication of work and determine the assurance that can be placed on the respective work of the two parties. Our audit plans and reports are shared with Ernst and Young.

#### 4.6 Other Internal Audit Service Providers

Internal Audit will also liaise with other Council's Internal Audit Service providers, where shared service arrangements exist. In such cases, a dialogue will be opened with each Council's equivalent Chief Audit Executive to agree a way forward regarding the future auditing regime.



#### 4.7 Other External Review and Inspection Bodies

Internal Audit will co-operate with all external review and inspection bodies that are authorised to assess and evaluate the activities of the Council, to determine compliance with regulations, standards or targets. Internal Audit will, wherever possible, utilise third party assurances arising from this work.

### 5. **OBJECTIVES AND SCOPE**

- 5.1 The provision of assurance services is the primary role of Internal Audit and there is a duty of care on the Chief Audit Executive to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This responsibility to evaluate the governance framework far exceeds examination of controls applying to the Council's core financial systems. Instead, Internal Audit is required to scrutinise the whole system of risk management, internal control and governance processes established by management.
- 5.2 Internal Audit also has a secondary role, whereby it will provide consultancy services which are advisory in nature and generally performed at the request of the Council to facilitate improved governance, risk management and control, and potentially contribute to the annual audit opinion.
- 5.3 A risk based Audit Plan will be developed each year to determine an appropriate level of audit coverage to generate an annual audit opinion, which can then be used to assist with the formulation of the SCDC's Annual Governance Statement. Moreover, audit work performed will seek to enhance the Council's overall internal control environment. In the event of deficiencies in arrangements being identified during audit assignments, Internal Audit will put forward recommendations aimed at improving existing arrangements and restoring systems of internal control to a satisfactory level, where relevant.
- 5.4 In accordance with the PSIAS, the Internal Audit Service will evaluate and contribute to the improvement of:
- The design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.
  - The effectiveness of the Council's processes for performance management and accountability.
  - The Council's IT governance provisions in supporting the organisation's corporate priorities, objectives and strategies.
  - The Council's risk management processes in terms of significant risks being identified and assessed; appropriate risk responses being made that align with the organisation's risk appetite, the capturing and communicating of risk information in a timely manner, and its use by staff, senior management and members to carry out their responsibilities and inform decision making generally.
  - The provisions developed to support achievement of the organisation's strategic objectives and goals.
  - The systems formulated to secure an effective internal control environment.
  - The completeness, reliability, integrity and timeliness of management and financial information.

- The systems established to ensure compliance with legislation, regulations, policies, plans, procedures and contracts, encompassing those set by the Council and those determined externally.
- The systems designed to safeguard Council assets and employees.
- The economy, efficiency and effectiveness with which resources are used in operations and programmes at the Council.

5.5 In addition to the areas recorded above, where Internal Audit will give input to their continuing enhancement; the Service will also provide support to the Executive Director in the discharge of his duties as the Section 151 Officer with responsibility for the probity and effectiveness of the Authority's financial arrangements and internal control systems.

5.6 **Managing the risk of fraud and corruption is the responsibility of management.** However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of risk controls built into systems by management, sharing this information with External Audit and other corporate investigators.

5.7 In the course of delivering services encompassing all the elements stated above, should any significant risk exposures and control issues subsequently be identified, Internal Audit will report these matters to senior management, propose action to resolve or mitigate these, and appraise the Corporate Governance Committee of such situations.

## 6. **INDEPENDENCE**

6.1 Internal Audit operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that Internal Audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results. The framework allows the HoIA direct access to and the freedom to report unedited, as deemed appropriate, to the Corporate Governance Committee, the Chief Executive, Section 151 Officer and the Executive Management Team.

6.2 Internal Audit has no operational responsibilities or authority over any of the activities that they are required to review. As a consequence, they do not develop procedures, install systems, prepare records, or engage in any other activity, which would impair their judgement. In addition, Internal Auditors will not assess specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an Internal Auditor provides assurance services for an activity for which they had responsibility within the previous 12 months. Internal Auditors may however provide consulting services relating to operations over which they had previous responsibility. The HoIA will confirm to the Corporate Governance Committee, at least annually, the organisational independence of the Internal Audit activity.

## 7. **PROFESSIONAL STANDARDS**

- 7.1 SCDC's Internal Auditors operate in accordance with the PSIAS, 2013. The Internal Auditors are also governed by the policies, procedures, rules and regulations established by SCDC. These include, but are not limited to Financial Regulations and Contract Standing Orders, the Anti-Fraud and Corruption Policy and the Code of Conduct. Similarly, the Council's Internal Auditors will be aware of external bodies' requirements and all legislation affecting the Council's activities.
- 7.2 The Council's Internal Auditors will additionally adhere to the Code of Ethics as contained within the PSIAS. Internal Auditors will also demonstrate due professional care in the course of their work and consider the use of technology-based audit and other data analysis techniques, wherever feasible and considered beneficial to the Council. All working arrangements and methodologies, which will be followed by SCDC's Internal Auditors are set out in the Audit Manual.

## 8. **AUDIT RESOURCES**

- 8.1 The HoIA will be professionally qualified (CCAB, CMIIA or equivalent) and have wide internal audit management experience, to enable them to deliver the responsibilities of the role.
- 8.2 The HoIA will ensure that the Internal Audit Service has access to staff that have an appropriate range of knowledge, skills, qualifications and experience to deliver requisite audit assignments. The type of reviews that will be provided in year include systems reviews, consultancy input to new / modified systems, and special investigations. In the event of special investigations being required, there is limited contingency in the Audit Plans to absorb this work. However, additional resources may need to be made available to the Internal Audit Service when such input is necessary.

## 9. **AUDIT PLANNING**

- 9.1 The HoIA will develop an annual audit strategy, together with annual audit plans and a summary of annual audit coverage using a risk based methodology. This will take into account documented corporate and operational risks, as well as any risks or concerns subsequently notified to Internal Audit by senior management. This will be submitted to Executive Management Team for their approval prior to being taken forward to the Corporate Governance Committee for final endorsement, in advance of the new financial year to which they relate.
- 9.2 Any difference between the plan and the resources available will be identified and reported to the Corporate Governance Committee. It will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for the Council to understand the areas to be covered and for it to be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the audit plan are highlighted in **Table 1**.

**TABLE 1: AUDIT ACTIVITIES**

<ul style="list-style-type: none"> <li>• Core system assurance work</li> <li>• Governance and Assurance Framework</li> <li>• Corporate / Cross Cutting audits</li> </ul>	<ul style="list-style-type: none"> <li>• Departmental specific reviews</li> <li>• Follow up activity</li> <li>• Internal advice on risks, controls and procedures</li> </ul>
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9.3 The audit plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not have been readily foreseen. However, on occasions, specific audit requests take precedence over the original audit plan and will be required as additional work rather than as a replacement. Resources, such as specialist or additional auditors may be required to supplement this. Internal Audit will reserve the right to make a charge for any additional work that is over and above that originally planned and will be done in consultation with the Executive Director (Corporate Services).

9.4 Annual audit plans will be discussed with the Executive Management Team prior to their formal approval.

## 10. **REPORTING**

10.1 The process followed for completing each audit is set out in **Table 2**.

10.2 Upon completion of each audit assignment, an Internal Audit report will be prepared that:

- Provides an opinion on the risks and controls of the area reviewed, and this will contribute to the annual opinion on the internal control environment, which, in turn, informs the Annual Governance Statement; and
- Provides a formal record of points arising from the audit and management responses to issues raised, to include agreed actions with implementation timescales.

10.3 Exit meetings are accommodated enabling management to discuss issued Draft Audit Reports. Accountability for responses to Internal Audit recommendations lies with the Chief Executive, Directors, and / or Heads of Service, as appropriate, who can either, accept and implement guidance given or formally reject it. However, if audit proposals to strengthen the internal control environment are disregarded and there are no compensating controls justifying this course of action, an audit comment will be made in the Final Audit Report, reiterating the nature of the risk that remains and recognising that management has chosen to accept this risk. Furthermore, depending on the severity of the risk, the matter may be escalated upwards and drawn to the attention of the Corporate Governance Committee.

TABLE 2: WORKING ARRANGEMENTS DURING AUDITS	
Stage	Commentary
Audit Brief	Set up and agreed with manager(s)
Fieldwork	Assignment undertaking including interviews, testing etc.
Exit Meeting	At conclusion of fieldwork, issues raised for reporting (if not already provided during course of fieldwork).
Draft report	Produced following completion of fieldwork / exit meeting. Head of Service / Line Manager to formally respond including acceptance of actions together with timescale proposals to implement.
Final Report	Internal Audit incorporates all management comments within the report and re-issue as a final. The report will be distributed in accordance with agreed protocols (see Table 4).

- 10.4 It is important that following production of each audit report, there is prompt dialogue between managers and Internal Audit so that findings can be discussed, actions identified to remedy any weaknesses and finally an agreed timescale to rectify them. Internal Audit will monitor implementation and report any gaps to senior management.
- 10.5 Actions are rated and an overall opinion given on the service area reviewed (see **Table 3**). Final Audit Reports will be issued in line with agreed working protocols to the relevant nominated officers and subject to follow up work as necessary.

TABLE 3: AUDIT ASSURANCE	
We categorise our opinions according to our assessment of the controls in place and the level of compliance with them	
Assurance	Description
<b>FULL</b>	The system is designed to meet objectives / controls are consistently applied that protect the Authority from foreseeable risks
<b>SIGNIFICANT</b>	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks
<b>LIMITED</b>	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority
<b>NO</b>	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives
We categorise our <b>recommendations</b> according to their level of risk and priority for implementation	
Priority	Description
<b>CRITICAL</b>	Extreme control weakness that jeopardises the complete operation of the service. <b>TO BE IMPLEMENTED IMMEDIATELY</b>
<b>HIGH</b>	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. <b>TO BE IMPLEMENTED AS A MATTER OF PRIORITY</b>
<b>MEDIUM</b>	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. <b>TO BE IMPLEMENTED AT THE FIRST OPPORTUNITY</b>
<b>LOW</b>	Control weakness which, if corrected, will enhance control procedures that are already relatively robust. <b>TO BE IMPLEMENTED AS SOON AS REASONABLY PRACTICAL</b>

10.6 Our assurance ratings will be subject to regular review to ensure that they remain relevant and robust for the service / organisation.

10.7 Following the end of the year, an annual report will be produced setting out Internal Audits opinion on the state of the internal controls and governance across the Council. This will comment upon:

- The scope including the time period covered;
- Any scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion;
- The overall opinion, providing reasons where an unfavourable overall opinion is given; and
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

Significant issues identified will be referred through to senior management for inclusion in the Annual Governance Statement.

10.8 All reports produced are set out in **Table 4**.

TABLE 4: PLANNING AND REPORTING FREQUENCY			
Report Produced	For	Reason	Content
Audit Report	Chief Executive Executive Director (Corporate Services) Relevant Director / Head of Service External Audit	The end of each audit assignment as the main recipient and those charged with implementing the issues identified	Executive Summary Audit Opinion Detailed risk issues Agreed improvement plan
Progress Reports (based around the committee cycle)	Corporate Governance Committee	To provide the Council with progress at delivering the audit service and any key governance issues arising.	Progress against annual plan Any amendments to current annual plan Details of significant risk issues Details of non-responses or non- implementation of actions
Annual Opinion and Performance Report	Corporate Governance Committee External Audit	End of year report in accordance with PSIAS. An evaluation of the works undertaken and the level of assurance established. Timeline: June committee cycle	Annual assurance report giving HoIA's opinion on the control environment Achievement of the annual plan Effectiveness of Internal Audit Compliance with PSIAS and any associated quality improvement plan
Annual Audit Plan	Corporate Governance Committee S.151 Officer External Audit	Details of the future plans to provide assurance across the Council in accordance with PSIAS. Timeline: March committee cycle	Audit Plan and associated documents



## 11 QUALITY ASSURANCE AND IMPROVEMENT

11.1 The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity, and includes both internal and external assessments. In the event of an improvement plan proving necessary to formulate and implement, in order to further develop existing service provisions, the HoIA will initiate the appropriate action and annually, the results of the quality and assurance programme together with progress made against the improvement plan will be reported to senior management and the Corporate Governance Committee.

### 11.2 Internal Assessments

11.2.1 Internal Assessments must include on-going monitoring of the performance of the internal audit activity. The Service operates in accordance with a number of key performance indicators (consistent with those submitted to Corporate Governance Committee in March 2015). An internal survey of the service will be commissioned in 2016.

11.2.2 The PSIAS additionally require periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of Internal Audit practices. This obligation is satisfied by the HoIA performing an annual self-assessment of the effectiveness of Internal Audit, before the results are submitted to Corporate Governance Committee. Presenting this information to Corporate Governance Committee enables members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the HoIA.

### 11.3 External Assessments

11.3.1 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external verification.

11.3.2 The HoIA will agree with Corporate Governance Committee and the Section 151 Officer the form of the external assessments; and, the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As part of the shared service arrangements, it would be prudent for each authority to be reviewed at the same time in order to reduce the level of duplication.

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## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

### INTERNAL AUDIT: CODE OF ETHICS

#### INTRODUCTION

The purpose of a Code of Ethics is to promote an appropriate ethical culture for Internal Audit. The Code sets out the minimum standards for the performance and conduct of South Cambridgeshire District Council's (SCDC) Internal Auditors. It is intended to clarify the standards of conduct expected when carrying out their duties and promote an ethical, professional culture at all times when undertaking audit duties.

#### PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity.** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- **Objectivity.** Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality.** Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency.** Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

#### INTEGRITY: SCDC Internal Auditors shall:

- Perform their work with honesty, diligence and responsibility;
- Observe the law and make disclosures expected by the law and the profession;
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- Respect and contribute to the legitimate and ethical objectives of the organisation; and
- Maintain relationships with colleagues, internal clients and external contacts that are characterised by honesty, truthfulness and fairness

**OBJECTIVITY:** SCDC Internal auditors shall:

- Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Not review any activity for which they have previously had operational responsibility;
- Not accept anything that may impair or be presumed to impair their professional judgement; and
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

**CONFIDENTIALITY:** SCDC Internal auditors shall:

- Be prudent in the use and protection of information acquired in the course of their duties but should ensure that requirements of confidentiality do not limit or prevent reporting within the authority as appropriate;
- Not make unauthorised disclosure of information unless there is a legal or professional requirement to do so; and
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

**COMPETENCY:** SCDC Internal auditors shall:

- Engage only in those services for which they have the necessary knowledge, skills and experience;
- Perform Internal Audit services with the International Standards for the Professional Practice of Internal Audit; and
- Continually improve their proficiency, effectiveness and quality of their services

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**MANAGING ARRANGEMENTS:**

To ensure compliance with the Code of Ethics:

- There is an annual review of the Code to reinforce understanding and confirm on-going commitment;
  - Quality control processes are in place to demonstrate integrity in all aspects of the work;
  - All staff are obliged to declare any potential conflicts of interest, as a minimum every 6 months;
  - Confidentiality breaches will not be tolerated; and
  - All staff are aware and understand the organisations aims and objectives together with an appreciation of the policies and procedures which govern the areas to be audited.
-

<b>SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL</b> <b>INTERNAL AUDIT PLAN AND STRATEGY 2016 / 2017</b>
---

**1. INTRODUCTION**

- 1.1 This document is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council. It will be reviewed throughout the year to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.
- 1.2 The Accounts and Audit Regulations 2011 stipulate that a council should maintain "*a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk*". The regulations also provide that council's "*undertake an adequate and effective internal audit of its accounting records and of its system of internal control*" in accordance with the Public Sector Internal Audit Standards. The Council's Internal Audit team are bound by the mandatory requirements of these standards.
- 1.3 Internal audit is defined as 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.
- 1.4 The provision of assurance is the key role for Internal Audit. This role requires the Head of Internal Audit (HoIA) to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This audit opinion is provided to the Corporate Governance Committee and also feeds into the Annual Governance Statement. Consulting services are advisory in nature and are generally performed at the specific request of management, with the aim of improving operations. Requests of this nature are considered in light of resource availability and our primary role of assurance.

**2. STRATEGY**

- 2.1 Shared management arrangements have been in place since July 2013 and covers South Cambridgeshire District Council, Cambridge City Council and Peterborough City Council. The reduced provision at a senior level across all authorities has allowed for a number opportunities to share best practice between organisations. Activities being considered to improve services going forward include:
- Where appropriate, use assurance provided from other authorities on shared audit activities;
  - Potential to expand the arrangements with other Councils or organisations; and
  - Exchange auditors for specific jobs to develop employees in different organisations.

### 3. AUDIT PLANS

3.1 With a shared audit management, there is a potential for a dilution of resources. Every effort is made to look at minimising this. In order for the service to deliver and enhance its provision, the following actions are used:

- Robust quality control of the works conducted;
- Regular training needs assessments to ensure appropriate skills are available;
- Efficient audit processes are utilised;
- Development of audit software;
- Shared resources and knowledge; and
- Use of assurance from other providers.

3.2 The following sources of information have been used in identifying the priorities put forward for audit coverage:

- Council objectives;
- Financial Strategy;
- The Council's strategic and operational risk registers; and
- Consultations with Directors and their respective management teams.

#### 3.3 Resource Requirements

3.3.1 Resource requirements are reviewed each year as part of the audit planning process and are discussed with the Executive Director (Corporate Services) as the Section 151 Officer. The current plans are based upon 1.20 FTE, i.e. a Senior Auditor full time and the Shared Head of Internal Audit at 0.20 FTE. Availability is based on the assumption that the current internal audit structure will remain essentially unaltered and intact throughout the year

3.3.2 The resource availability summarised in **Table 1** sets out the requirement of 240 chargeable days, including contingency.

<b>Table 1: AVAILABLE RESOURCES</b>			
	<b>Days</b>		
Maximum Available Resources	261	53	<b>314</b>
<b>Less: Non Chargeable Elements</b>			
Leave / Bank Holidays / Sickness	-40	-9	<b>-49</b>
Training	-10	-1	<b>-11</b>
Staffing Related (1:1 / Appraisals / Admin)	-8	-4	<b>-12</b>
<b>TOTAL RESOURCES ALLOCATED</b>	<b>203</b>	<b>39</b>	<b>242</b>

#### 3.4 Allocations

3.4.1 We have mapped the audit activities across the 4 objectives of the Council as set out in the Corporate Plan 2016 – 2021 (approved by the Council 25 February 2016). Not all objectives are covered in any one year, however it should be noted, that a number of the audits identified could be allocated to more than one objective.

AH: Affordable Homes  
 CORP: Corporate Services  
 HES: Health and Environmental Services  
 PNC: Planning and New Communities

3.4.2 Separately identified are ongoing assurance works which are routinely undertaken each year e.g. key financial systems; works associated with annual assurance requirements; and follow ups of previous audits. The table below provides an overview of the breakdown of audit team for 2016 / 2017. A more detailed breakdown of planned audit work is given on the pages that follow.

3.4.3 The overall allocation of time from the estimated 242 days available is as follows:

<b>Table 2: INTERNAL AUDIT</b>		
	<b>Days</b>	<b>%</b>
Living Well	0	0.00
Homes for Our Future	40	16.5
Connected Communities	0	0.00
An Innovative and Dynamic Organisation	37	15.3
Core System Assurance Work	48	19.8
Annual Governance and Assurance Work	77	31.9
Other Resource Provisions	40	16.5
<b>TOTAL RESOURCES ALLOCATED</b>	<b>242</b>	<b>100.00</b>

3.4.4 A number of audits have been identified where we will seek for assurance from other providers e.g. Payroll Services from Cambridge City Council and they have been incorporated on their audit plans.

3.4.5 As part of our planning process, a number of audits where identified which have been deferred to future years due to either service or legislative changes.



AUDIT ACTIVITY	DEPARTMENT	AUDIT TYPE	SCOPE	DAYS
<b>HOMES FOR OUR FUTURE: Secure the delivery of a wide range of housing to meet the need of existing and future communities</b>				
Ermine Street Housing	AH	Systems	Review of the financial modelling and the governance arrangements	10
Responsive Repairs	AH	Systems	Follow up of previous audit and its outcomes.  In addition, the Council is reviewing its existing partnering contract and the review will cover these proposals.	10
Planning	PNC	Systems	The department has been undertaking a series of reviews to enable successful delivery of the growth agenda. The existing performance indicators are based on the original Best Value Indicators. The review will compare the indicators with other organisations and provide suggestions for improvement.	10
Homelessness	AH	Systems	Risk Register high risk. Focus will look at the processes in place to reduce the need for bed and breakfast accommodation	10
				<b>40</b>

AUDIT ACTIVITY	DEPARTMENT	AUDIT TYPE	SCOPE	DAYS
<b>AN INNOVATIVE AND DYNAMIC ORGANISATION: Adopt a more commercial and business-like approach to ensure we can continue to deliver the best possible services at the lowest possible cost</b>				
Banking Contract	CORP	Post implementation	Re-let from April 2016 as part of a joint exercise between Cambridge City Council and Northampton Borough Council. Following transfer to HSBC the review will look to establish whether or not the desired outcomes have been achieved	7
Procurement and Commissioning	CORP	Compliance	Contracts review to verify that the Council is complying with the new Public Contract Regulations 2015	10
Shared Services	HES	Project	Waste Service. Review the arrangements for cash collection for trade waste and the services ability for income commercialisation	10
Asset Management	CORP	Systems	Reconciliation of land assets between various data systems	10
				<b>37</b>

**CORE SYSTEMS ASSURANCE WORK**

Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make their statement included in the Councils Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on key systems. Systems are reviewed on a rolling cycle to ensure that all are covered.

Accounts Receivable	CORP	Follow Up	Follow up of previous audit and its outcomes	4
Benefits	CORP	Follow Up	Follow up of previous audit and its outcomes	4
Budgetary Control	CORP	Systems	Review the effectiveness of cost centre management	12
Business Rates	CORP	Systems	Review the processes in place for the calculation, billing and collection of national non-domestic rates	10
Council Tax	CORP	Systems	Review the processes in place for the calculation, billing and collection of council tax	10
Housing Rents	CORP	Follow Up	Follow up of previous audit and its outcomes	4
VAT	CORP	Follow Up	Follow up of previous audit and its outcomes	4
				<b>48</b>

In line with the agreed strategy, not all fundamental systems are reviewed every year but over a 3 year cycle in order to provide audit coverage across all aspects of the business. Audits not planned for 2016 / 2017:

- Accounts Payable; Cash and Bank; Main Accounting and Treasury Management
- Payroll (assurance will be provided on this service by Cambridge City Council)

## ANNUAL GOVERNANCE AND ASSURANCE WORK

Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section includes audit work that relates to the production of the Annual Governance Statement

Annual Audit Opinion	N/A	Assurance	Head of Internal Audit opinion on the state of governance and the internal control framework in place within South Cambridgeshire District Council	2
Internal Audit Effectiveness	N/A	Assurance	Review of the Internal Audit service against the Public Sector Internal Audit Standards	2
Fraud and Corruption	HES	Assurance	Review of new arrangements proposed for the integration of fraud investigation within enforcement	10
Annual Governance Statement	N/A	Assurance	Verification of processes for the collection of data to produce the Annual Governance Statement	1
National Fraud Initiative	N/A	–	Ongoing investigations into anomalies identified through the previous data matching exercise. Coordination and preparation for the next data download for submission to the Cabinet Office in October 2016	20
Human Resources	Various	Systems	Flexible working arrangements As part of the delivery of efficiencies, new ways of working are being explored. The review will look into arrangements / policies for managing flexible working and that services are operating to safe practices.	10
	HES	Risk	Safeguarding of children and vulnerable adults including DBS checks. Best practice links will be drawn from others e.g. County.	8
	HES	Risk	Review will look at the arrangements in place verification checks in relation to driver competencies.	8
Performance Management	Various	Follow Up	Review 2015 / 2016 outcomes	4

ANNUAL GOVERNANCE AND ASSURANCE WORK (continued)				
Project Management	Various	Project	Review of progression on delivery of key projects: <ul style="list-style-type: none"> <li>- HRA Business Plan (following removal of the re-build programme)</li> <li>- Housing Development Agency</li> </ul>	12
				77

**OTHER RESOURCE PROVISIONS**

Throughout the year, audit activities will include reviews that have not been specified within the Audit Plan, including management requests as a result of changing risks; following up agreed audit actions and completion of audit works from 2015 / 2016 Audit Plan

Carry Forward Activities	Various	–	A number of audits roll forward either as a result of starting late in 2015 / 2016 or being rolled forward due to activities taking precedence e.g. special investigations	15
Contingency: Advice	Various	Advice	Internal Audit act as a focal point to assist officers across the Council in providing advice / support in relation to projects; contracts; and general controls.	10
Reviews / Management	–		Undertake reviews of works / quality checks to ensure meet required standards and production of committee papers	15
				<b>40</b>

**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

**CORPORATE GOVERNANCE COMMITTEE**

**18 MARCH 2016**

**INTERNAL AUDIT PLAN 2015 / 2016: PROGRESS REPORT**

**RECOMMENDATIONS:**

**That Corporate Governance Committee notes:**

- **Progress against the delivery of the 2015 / 2016 Audit Plan**

Report Author:	Steve Crabtree
Position:	Shared Head of Internal Audit (for Peterborough UA / Cambridge City / South Cambridgeshire Councils)
Contact:	Peterborough Office: 01733 384557 Cambridge Office: 01223 458181 South Cambridgeshire Office: 01954 713445

## DELIVERY OF THE INTERNAL AUDIT PLAN

### 1. INTRODUCTION

- 1.1 The purpose of this report is to bring the Corporate Governance Committee up to date with progress made against the delivery of the 2015 / 2016 Internal Audit Plan. This report aims to:
- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit;
  - Advise the Committee of significant issues where controls need to improve to effectively manage risks;
  - Advise of any planned changes to reviews, slippage or deletions to that originally agreed on 27 March 2015; and
  - Track progress on the delivery of agreed actions which will be reported as part of the annual reporting process.
- 1.2 The information included in this progress report will feed into, and inform our overall opinion in the Annual Head of Internal Audit Report issued at the year-end. This opinion will in turn be used to inform the Annual Governance Statement (AGS) included in the Statement of Accounts and signed by the Chief Executive and Leader of the Council. The report is for the Committee to consider under its Terms of Reference:
- To monitor the activities of the Internal Audit service provider and measure performance against the plan; and
  - To consider a quarterly report detailing audit coverage and the extent to which any major problems were highlighted.
- 1.3 A number of the activities set out within the agreed Audit Plan are to support the works of External Audit to avoid the risk of duplication of audit work; and improve the effectiveness, efficiency and economy of both audit teams. The scope for a number of new audit areas have been agreed with senior management and a series of audits have commenced, findings and conclusions of which will be reported at the next meeting. The following analysis details progress up to, and including 29 February 2016.
- 1.4 In addition to providing assurance on the current controls, while we have been able to confirm that the majority of systems comply with expected controls, we have also identified a number of areas where efficiencies could be made to the system. We have incorporated these into our reports for management consideration.



## 2. AUDIT ACTIVITIES 2014 / 2015

2.1 The status for audit work undertaken against the current plan is as follows (NB: Audit reports which have been discussed previously at Corporate Governance Committee are shown as **SHADED**):

### CORE SYSTEMS ASSURANCE WORK

AUDIT ACTIVITY	COMMENTARY						
	Previous Review	Assurance Rating / No. of Recommendations					Commentary
		Assurance	Critical	High	Medium	Low	
Accounts Receivable (Trade Waste)	Not applicable	N/a	0	3	6	1	<p>NB: An assurance rating has not been provided due to this being separate to the original scope. However management should consider the recommendations within this report with a view to implementation prior to the 2015/16 year end process.</p> <p>A number of anomalies were identified following the Waste Management system upgrade, personnel changes and the invoice process.</p> <p>Finally, the review of the year end processes identified a number of areas where improvements could be made to ensure appropriate controls exist.</p>
Responsive Repairs	RSM Tenon review	NO	0	5	3	0	<p>The review focussed on the performance of the housing repairs Partnering Contract with Mears and the robustness of the monitoring arrangements.</p> <p>At the time of the audit it was identified that the contract monitoring arrangements were ineffective. Poor performance issues identified were not being escalated for action in line with the contract and the quality and accuracy of the data provided to calculate performance was inconsistent.</p>

### 3. AUDIT ACTIVITIES 2015 / 2016

3.1 The status for audit work undertaken against the current plan is as follows:

#### CORE SYSTEMS ASSURANCE WORK

AUDIT ACTIVITY	COMMENTARY						
	Previous Review	Assurance Rating / No. of Recommendations					Commentary
		Assurance	Critical	High	Medium	Low	
Housing Benefits	March 2015  FULL	Audit scheduled for Quarter 4. Terms of Reference and Testing Schedule agreed.  Focus will be on the key controls and to follow up any previous recommendations.					
Accounts Payable (Creditors)	March 2015  SIGNIFICANT	WORK IN PROGRESS					
Accounts Receivable (Debtors)	April 2015  SIGNIFICANT	WORK IN PROGRESS. Exit meeting organised.					
Housing Rents	February 2015  SIGNIFICANT	SIGNIFICANT	0	0	2	0	Good controls are in place within the system. Improvements identified relate to appropriate policies / processes for salary deductions and removal of access to employees who change roles.

## GOVERNANCE AND ASSURANCE WORK

AUDIT ACTIVITY	COMMENTARY						
	Previous Review	Assurance Rating / No. of Recommendations					Commentary
		Assurance	Critical	High	Medium	Low	
Annual Governance Statement	<b>COMPLETED</b> The Annual Governance Statement was approved at Corporate Governance Committee in September 2015. No material issues were identified for attention of management / members within the Statement. Internal Audit has reviewed the methodology used to collect, collate and interpret the information and have identified no gaps.						
Annual Audit Opinion	<b>COMPLETED</b> The Annual Audit Opinion was submitted to Corporate Governance Committee in June 2015						
National Fraud Initiative	<b>ON GOING.</b> Various data anomalies have been referred across the organisation for further investigation.						
Corporate Fraud Arrangements	<b>WORK IN PROGRESS.</b> A high level review is being undertaken against the CIPFA Code of Practice on managing the risk of Fraud and Corruption.						
Risk Management	<b>WORK IN PROGRESS</b>						
Project Management	Not applicable	<b>LIMITED</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>2</b>	The audit focussed on the project management arrangements in place and the level of compliance with policies and processes.

## CORPORATE CROSS CUTTING AUDITS

AUDIT ACTIVITY	COMMENTARY						
	Previous Review	Assurance Rating / No. of Recommendations					Commentary
		Assurance	Critical	High	Medium	Low	
Human Resources / Staffing	Not applicable (different areas looked at each year)	LIMITED	0	6	4	1	<p>The objectives of the audit were to provide assurance that management have implemented adequate and effective controls over Recruitment and Selection.</p> <p>Our audit found that whilst there is a clear policy and documented processes, there are weaknesses in the level of compliance across the Council and inconsistencies in the approach.</p>
Service Preparations for Growth	New audit area	Audit scheduled for quarter 4. Combined with audit below (reorganisation)					
Corporate Governance	Not applicable (different areas looked at each year)	WORK IN PROGRESS. Focus of audit is to verify Gifts and Hospitality declarations.					
Reorganisation / Service Delivery	New audit area	Audit scheduled for quarter 4.					

DEPARTMENTAL SPECIFIC

AUDIT ACTIVITY	COMMENTARY						
	Previous Review	No. of Recommendations / Severity					Commentary
		Assurance	Critical	High	Medium	Low	
Allocations / Voids	February 2014  <b>SIGNIFICANT</b>	<b>WORK IN PROGRESS.</b> Draft report has been issued and responses are being collated. Assurance is to be split over three areas: <ul style="list-style-type: none"><li>• Housing Services Tenancy Fraud;</li><li>• Choice Based Lettings System; and</li><li>• Housing Voids</li></ul>					
Ermine Street Business Plan	New audit area	<b>COMPLETED</b> Initial review of draft proposals as part of the developing the Councils financial strategy					
Insurance	New audit area	<b>WORK IN PROGRESS.</b> Draft report has been issued and responses are being collated					
Information Governance	RSM Tenon	<b>WORK IN PROGRESS.</b> Two separate areas are being reviewed, namely, Freedom of Information and Data Sharing. One completed to date.					
Freedom of Information	New audit area	<b>SIGNIFICANT</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>3</b>	Good arrangements are in place for the delivery of Fol. Improvements were identified to enhance management information and its reporting
Members Allowances	RSM Tenon	<b>SIGNIFICANT</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>1</b>	Following verification that all payments made are in accordance with the scheme and are correct. Generally, the scheme has been administered well although a number of anomalies were identified.

<b>Community Right to Bid</b>	New audit area	<b>SIGNIFICANT</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>3</b>	Community asset applications since April 2014 were reviewed to ensure the correct processes had been adhered to regarding acceptance, refusal, appeals and disposals of assets. Although the process is defined some controls could be tightened and an additional control implemented documenting decisions made to promote transparency and efficient operation of the evaluation of asset nominations.
<b>RECAP</b>	New audit area	<b>DEFERRED:</b> This audit is now included on other Councils audit plans who will provide assurance to South Cambridgeshire. The allocated days for this audit have been reassigned to cover the National Fraud Initiative.					
<b>Urban Design and Conservation</b>	New audit area	Scheduled for quarter 4.					

Separate advice has been provided to the Council in relation to:

- Document retention policies;
- Providing details of the internal control environment to assist in Insurance policy requests;
- Investigating new NFI matches;
- The publication of expenses information; and
- The scheme of delegation.

Work is well underway into reviewing corporate and departmental risk registers in order to establish a comprehensive Internal Audit Plan for 2016 / 2017 which will be brought before members in March 2016. Discussions are ongoing with other Councils to establish joint areas for auditing and where appropriate assurance can be provided to each other.

## ARRIVING AT AN OPINION

Where appropriate, each report we issue during the year is given an overall opinion based on the criteria below. Certain pieces of work do not result in an audit report with an opinion – such as consultancy work, involvement in working groups, review of National Fraud Initiative (NFI) reports and follow-ups. The assessment from each report, along with our consideration of other audit work, is used to formulate the overall Opinion.

AUDIT ASSURANCE	
Assurance	Definitions
Full	The system is designed to meet objectives / controls are consistently applied that protect the Authority from foreseeable risks.
Significant	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.
Limited	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
No	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss / embarrassment / failure to achieve key objectives.

This is based upon the number and type of recommendations we make in each report and is for any control weaknesses that jeopardises the complete operation of the service. The prioritisation is established as follows:

RECOMMENDATIONS MADE TO IMPROVE ASSURANCE LEVELS		
Status	Definitions	Implementation
Critical	Extreme control weakness that jeopardises the complete operation of the service.	Immediately
High	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	As a matter of priority
Medium	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	At the first opportunity
Low	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	As soon as reasonably practical

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# Agenda Item 9

## South Cambridgeshire District Council

Year ending 31 March 2016

Audit Plan

2 February 2016

Ernst & Young LLP



Building a better  
working world

Corporate Governance Committee  
South Cambridgeshire District Council  
South Cambridgeshire Hall  
Cambourne Business Park  
Cambourne  
CB23 6EA

4 February 2016

Dear Committee Members

## **Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Corporate Governance Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 18 March 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Rob Murray

Executive Director  
*For and on behalf of Ernst & Young LLP*  
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psaa.co.uk\)](http://www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Corporate Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of South Cambridgeshire District Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

We will provide an update to the Corporate Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
<b>Valuation and Impairment of Property Plant and Equipment</b>	
<p>Property, Plant and Equipment (PPE) represent the largest asset values on the Council's balance sheet.</p> <p>Land and buildings are initially measured at cost and then revalued to fair value. Council dwellings are revalued annually whilst other land and buildings are revalued on a 5 year rolling basis.</p> <p>This is carried out by an external expert valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.</p>	<p>We will obtain an understanding of and evaluate key controls over the valuation of PPE.</p> <p>Where asset valuations are undertaken in-year we will:</p> <ul style="list-style-type: none"> <li>• agree the source data used by your valuer to supporting records;</li> <li>• assess the work of your valuer; and</li> <li>• agree the outputs to your fixed asset register and statements</li> </ul> <p>Where the Council proposes significant changes to valuation bases we will evaluate the rationale.</p> <p>Where assets are not revalued in-year, we will review the Council's impairment assessment and consideration of whether the carrying value of these assets remain appropriate.</p>
<b>Pension Liability</b>	
<p>The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement.</p> <p>Due to the nature, volume and size of the transactions we consider this to be a significant risk.</p>	<p>We will obtain an understanding of and evaluate key controls over the valuation of the pension liability..</p> <p>We will consider:</p> <ul style="list-style-type: none"> <li>► the expertise of the Actuary used by the Council;</li> <li>► the reasonableness of the estimations and judgements used; and</li> <li>► the completeness and accuracy of the data provided to the Actuary</li> </ul>
<b>Risk of fraud in revenue recognition</b>	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>► Review and test revenue and expenditure recognition policies</li> <li>► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias</li> <li>► Develop a testing strategy to test material revenue and expenditure streams</li> <li>► Review and test revenue cut-off at the period end date</li> </ul>
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>► Reviewing accounting estimates for evidence of management bias, and</li> <li>► Evaluating the business rationale for significant unusual transactions</li> </ul>
<b>Other financial statement risks</b>	
<b>Group Accounts</b>	
<p>The activities of the Council's subsidiary are increasingly complex and material to the group financial statements.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>► The accuracy and completeness of the consolidation</li> </ul>

entries

- ▶ The compliance of the group accounts with disclosure requirements.
- 

## 2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

### 3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. For 2015-16 this is based on the overall evaluation criterion:

*"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"*

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"*

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has not identified any risks which we view as relevant to our value for money conclusion.

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements; and
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

### 4.2 Audit process overview

Our audit involves:

- ▶ Assessing key internal controls where we have identified significant risks;
- ▶ Reviewing the work of Internal Audit where appropriate to inform the identification of risk and our work on the Annual Governance Statement;
- ▶ Reliance on the work of valuation experts in relation to areas such as pensions, property; the NDR appeals provision; and financial instruments;
- ▶ Substantive tests of detail of transactions and amounts
- ▶ Reviewing the audited financial statements and auditor's report on the Council's wholly owned subsidiary; performing consolidation tests and analytical review of the amounts feeding into the group statements. (see Appendix C)

#### **Analytics**

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques.



## Internal audit

To the fullest extent permissible by auditing standards, we intend to consider internal audit's work in documenting your financial systems and controls. This will enable us to more efficiently update our understanding of your systems and carry out the walkthrough of those systems as required under auditing standards. Our intention is to carry out a fully substantive audit in 2015/16 rather than rely on the operation of controls as we believe this to be a more efficient approach.

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan where they raise issues that could have an impact on the year-end financial statements.

## Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property valuations	Expert valuer
Pension Liability valuation	Actuary / EY Pensions team
Financial Instruments valuations	Expert Valuer
NDR Appeals Provision	Expert Valuer

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

## 4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards

- ▶ Addressing the risk of fraud and error;

- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

#### **Procedures required by the Code**

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Explanatory Foreword
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

## **4.4 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £1.32 million based on 2% of gross revenue expenditure in the provision of services. We will communicate uncorrected audit misstatements greater than £66,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## **4.5 How materiality is applied to the component locations**

We determine component materiality as a percentage of Group materiality based on risk and relative size to the Group.

## **4.6 Fees**

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative scale fee for the audit of South Cambridgeshire District Council is £51,975 (2014/15: £69,300).

## **4.7 Your audit team**

The engagement team is led by Rob Murray, who has significant experience of Local Government audit. Rob is supported by Tony Poynton who is responsible for the day-to-day direction of audit work and is the key point of contact for the Principal Accountant.

## 4.8 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Corporate Governance Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Corporate Governance Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Corporate Governance Committee	Deliverables
High level planning	<b>April 2015</b> <b>January 2016</b>	- <b>18 March 2016</b>	Audit Fee Letter Audit Plan
Risk assessment and setting of scopes	<b>January</b>	<b>24 June 2016</b>	Progress Report
Testing routine processes and controls	<b>February / March</b>	<b>24 June 2016</b>	Progress Report
Year-end audit	<b>July / August</b>	<b>23 September 2016</b>	
Completion of audit	<b>September</b>	<b>23 September 2016</b>	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; [our opinion on the regularity of your expenditure and income]; and, [by exception] overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	<b>October</b>	<b>tbc</b>	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

## 5. Independence

### 5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed; analysed in appropriate categories.

### 5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

#### ***Self-interest threats***

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 15:85. No additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

#### ***Self-review threats***

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

#### ***Management threats***

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

#### ***Other threats***

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

#### ***Overall Assessment***

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Rob Murray, the audit engagement Director and the audit engagement team have not been compromised.

### **5.3 Other required communications**

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Opinion Audit and VFM Conclusion	51,975	51,975	69,300	Decrease due to 25% reduction in fees required by PSAA
<b>Total Audit Fee – Code work</b>	<b>51,975</b>	<b>51,975</b>	<b>69,300</b>	
Certification of claims and returns <sup>1</sup>	9,190	9,190	18,391	The 2015/16 scale fee is based on the level of certification work performed in 2013/14
Non-audit work	9,190	9,190	18,391	

*All fees exclude VAT.*

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

<sup>1</sup> Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Corporate Governance Committee. These are detailed here:

Required communication	Reference
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>► Significant difficulties, if any, encountered during the audit</li> <li>► Significant matters, if any, arising from the audit that were discussed with management</li> <li>► Written representations that we are seeking</li> <li>► Expected modifications to the audit report</li> <li>► Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	► Report to those charged with governance
<b>Misstatements</b> <ul style="list-style-type: none"> <li>► Uncorrected misstatements and their effect on our audit opinion</li> <li>► The effect of uncorrected misstatements related to prior periods</li> <li>► A request that any uncorrected misstatement be corrected</li> <li>► In writing, corrected misstatements that are significant</li> </ul>	► Report to those charged with governance
<b>Fraud</b> <ul style="list-style-type: none"> <li>► Enquiries of the Corporate Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>► A discussion of any other matters related to fraud</li> </ul>	► Report to those charged with governance
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>► Non-disclosure by management</li> <li>► Inappropriate authorisation and approval of transactions</li> <li>► Disagreement over disclosures</li> <li>► Non-compliance with laws and regulations</li> <li>► Difficulty in identifying the party that ultimately controls the entity</li> </ul>	► Report to those charged with governance
<b>External confirmations</b> <ul style="list-style-type: none"> <li>► Management's refusal for us to request confirmations</li> <li>► Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	► Report to those charged with governance
<b>Consideration of laws and regulations</b> <ul style="list-style-type: none"> <li>► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>► Enquiry of the Corporate Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Governance Committee may be aware of</li> </ul>	► Report to those charged with governance

Required communication	Reference
<b>Independence</b> Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> </ul>
<b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<b>Significant deficiencies in internal controls identified during the audit</b>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<b>Fee Information</b> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<b>Group audits</b> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> </ul>
<b>Certification work</b> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<ul style="list-style-type: none"> <li>▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</li> </ul>



## Appendix C Detailed scopes

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

- ▶ **Full scope:** locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).
- ▶ **Specific scope:** locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.
- ▶ **Limited Scope:** limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

Our audit approach is risk based, and we have assessed the risks presented by the component company within the South Cambridgeshire District Council group. South Cambs Ltd has been assessed as a limited scope component, with our work being based on a desk top review consisting of enquiries of management and analytical review as appropriate.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the auditor of the group component company.

For the component company we expect to review the final audited financial statements and the auditor's report on the results of their audit when performing our tests of consolidation and analytical review of the amounts feeding into the group statements.

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# Agenda Item 10

## **Certification of claims and returns annual report 2014/15**

South Cambridgeshire District Council

6 January 2016

Ernst & Young LLP



Building a better  
working world

The Members of the Corporate Governance Committee  
South Cambridgeshire District Council  
Cambridgeshire Hall  
Cambourne Business Park  
Cambourne  
CB23 6EA

6 January 2016

Email: [MHodgson@uk.ey.com](mailto:MHodgson@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2014/15 South Cambridgeshire District Council**

We are pleased to report on our certification work. This report summarises the results of our work on South Cambridgeshire District Council's 2014/15 claims.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014/15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

### **Statement of responsibilities**

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

### **Summary**

Section 1 of this report outlines the results of our 2014/15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £27.5 million and met the submission deadline. We issued a qualification letter with our submission, the qualification matters are included in section 2. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

Fees for certification work are summarised in section 2. The fees for 2014/15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website ([www.psaa.co.uk](http://www.psaa.co.uk))

We welcome the opportunity to discuss the contents of this report with you at the 18 March Corporate Governance Committee.

Yours faithfully



**Mark Hodgson**  
Executive Director  
Ernst & Young LLP  
Enc

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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£27,538,799
Amended	Subsidy reduced by £2,329 to £27,536,470
Qualification letter	Yes
Fee – 2014/15	£18,390
Fee – 2013/14	£15,600

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

- HRA rent rebates - Testing of the initial sample identified 1 case where the eligible rent was incorrectly calculated as the under-occupancy deduction had not been correct applied. Testing of the additional 40 cases identified no further errors.
- Rent Allowance – testing identified 2 errors in weekly income calculation and 1 error in occupancy deduction. Testing of an additional 40 cases identified no further errors.
- Errors were identified between the recording of split between cells 12 and 13. 100% testing of these cells were undertaken and an amendment was made to the claim.
- An error was also identified in the calculation of modified schemes. 100% testing of these cells were undertaken and an amendment was made to the claim.

The net impact on the claim was £2,329 reduction in subsidy.

## 2. 2014/15 certification fees

The Audit Commission determined a scale fee each year for the audit of claims and returns. For 2014/15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

Claim or return	2013/14	2014/15	2014/15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	15,600	18,390	18,390
<b>Total</b>	<b>15,600</b>	<b>18,390</b>	<b>18,390</b>



### 3. Other assurance work

During 2014/15 we also acted as reporting accountants in relation to the following scheme:

- Housing pooling return.

We have provided a separate report to the Council in relation to this return. This work has been undertaken outside the Audit Commission / PSAA regime, and the fees for this are not included in the figures included in this report. They are referred to here for completeness to ensure Members have a full understanding of the various returns that the Council prepares and on which we provide some form of assurance. We did not identify any significant issues as part of our work on this return that needs to be brought to the attention of Members.

## 4. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2015/16 is £9,190. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015/16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2013/14.

Details of individual indicative fees are available at the following web address:  
<http://www.psaa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director – Corporate Services before seeking any such variation.

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