

South Cambridgeshire District Council

Internal Audit Annual Report

Year ended 31 March 2009

Draft

Presented at the Corporate Governance Committee meeting of: 29 April 2009

Approved by: Chris Harris as Head of Internal Audit

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

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Registered in England & Wales No. 3444889
Registered Office 1 Hollinswood Court Stafford Park 1 Telford TF3 3DE

1 Introduction

1.1 The Role of Internal Audit

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

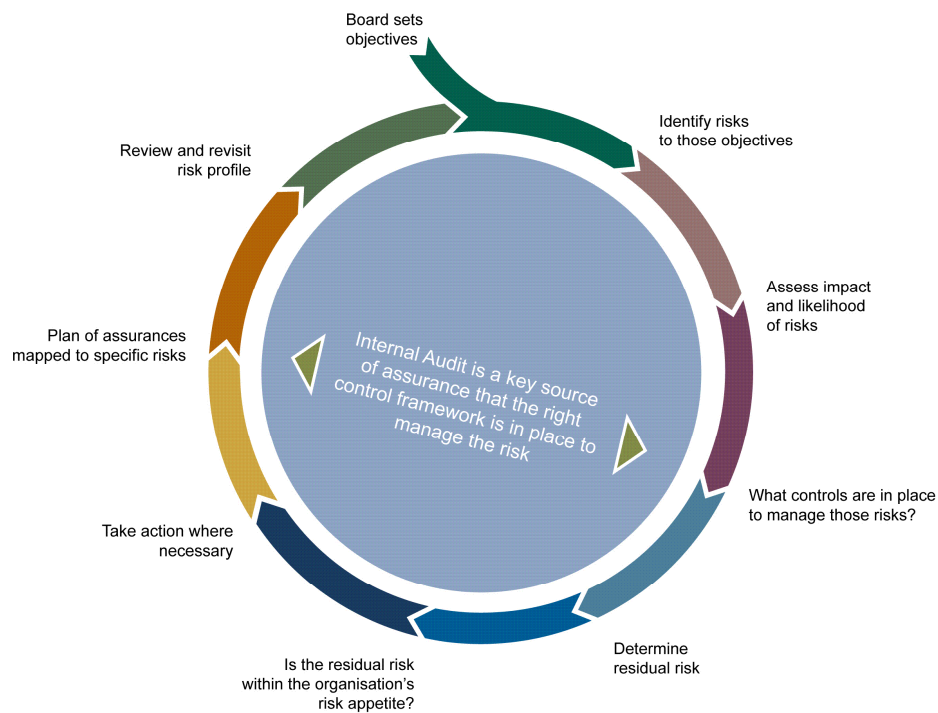


Exhibit A: The Assurance Cycle. © RSM Bentley Jennison

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

- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work.

1.2 Governance Statement

Under Regulation 4[2] of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit [Amendment] [England] Regulations 2006, authorities are required to publish a statement on internal control. From 2007/08, authorities have had to publish an annual governance statement in line with the CIPFA/SOLACE Good Governance Framework to meet that statutory requirement.

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

2 Internal Audit Assurance for 2008/2009

2.1 Context










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

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

2.2 Internal Audit Assurance Statement

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

For the 12 months ended 31 March 2009, based on the work we have undertaken, our opinion regarding the adequacy and effectiveness of South Cambridgeshire District Council's arrangements is as follows:

	Red	Amber	Green
Governance			
Risk Management			
Control			

2.3 Scope of the Internal Audit Opinion

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

- The results of all internal audits undertaken during the year ended 31 March 2009 (see Appendix A for a risk map of our internal audit assurances and Appendix B for a summary of audits);
- The results of follow-up action taken in respect of audits from previous years;
- Whether fundamental or significant recommendations have been accepted by management and, if not, the consequent risks;
- The affects of any material changes in the organisation's objectives or activities;

- Matters arising from previous reports or other assurance providers to the Corporate Governance Committee or Council;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation;
- What proportion of the organisation's internal audit needs have been covered to date.

2.4 The Basis of the Opinion

In reaching this opinion the following factors were taken into particular consideration:-

Governance

South Cambridgeshire District Council's review of Governance for 2008/09 included assisting the Authority with the completion of the Annual Governance Statement including the Statement of Internal Control. In addition, we undertook a review of the Governance arrangements. The 2008/09 Internal Audit review found that taking account of the issues identified in our opinion the Council can take **substantial assurance** that the controls upon which the organisation relies to manage these risks, as currently laid down and operated, are effective. (see appendix B for definition of assurance levels and categorisation of recommendations).

Risk Management

South Cambridgeshire District Council continues to enhance its Risk Management arrangements; we reviewed the Risk Management Policy, Risk Register and the embedding of Risk Management within the Area. In 2008/2009 we undertook a review of the organisation's risk maturity and concluded that South Cambridgeshire District Council is a **Risk Defined / Managed** organisation. (see appendix B for definition of Risk Maturity)

Internal Control

All reports issued to date have resulted in positive assurance levels, these being either substantial or adequate assurance. Further details of these are included within Appendix A of this report. Additional information on any issues identified within our work can be obtained from management if required.

Our follow-up review indicated that management have implemented a reasonable number of the recommendations raised in our prior year audit reports. Management have assured us that the issues raised within all of our reports issued this year will be addressed in accordance with the agreed action plans. We will undertake a follow up review of this area during 2009/10 to confirm that these actions have been taken.

Acceptance of Recommendations

All except three recommendations within the Risk Maturity review made during the year were accepted by management. These relate to one significant and two merits attentions. The significant recommendation related to the wording of risks within the risk register.

2.5 Governance Statement

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

2.6 Conflicts of Interest

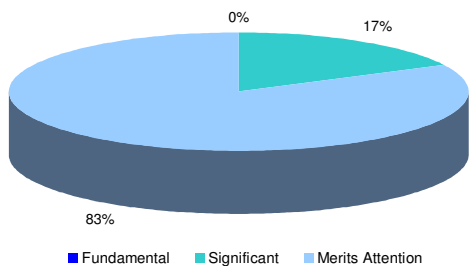
We have not undertaken any work or activity during 2008/09 that would lead us to declare any conflict of interests.

2.7 Benchmarking Data

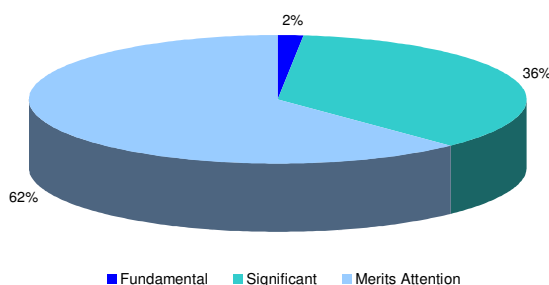
The tables below show the split of internal audit recommendations and opinions for South Cambridgeshire District Council in 2008/09 and those made in 2007/08.

Comparison of the categories of internal audit recommendations made 2008/09 and 2007/08

Recommendations 2008/09



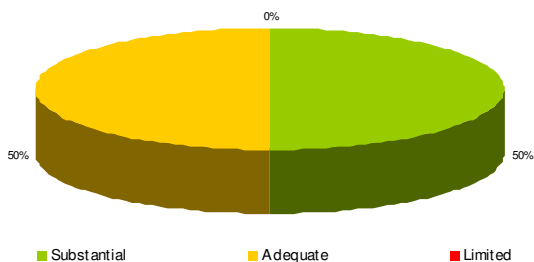
Recommendations 2007/08



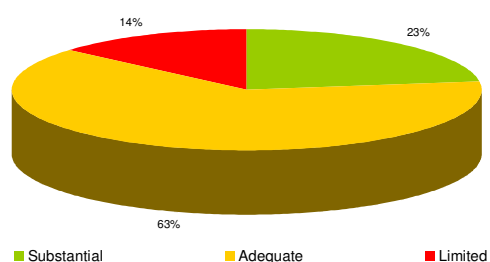
Comparison of assurance levels provided by internal audit in 2008/09 and 2007/08

For assurance assignments only

Assurance Levels 2008/09



Assurance Levels 2007/08



Appendix A: Internal Audit Opinions and Recommendations 2008/09

Auditable Area	Planned Work (Days)	Actual Work (Days)	Assurance Level Given	Number of Recommendations made				
				Fundamental	Significant	Merits Attention	In Total	Agreed
ICT Review - Software	8	8	Adequate	0	3	7	10	10
ICT Review – Network Security	7	7	Substantial	0	0	3	3	3
Health and Safety	6	5	Substantial	0	0	2	2	2
Human Resources - Recruitment	7	7	Adequate	0	1	4	5	5
Planning	6	6	Adequate	0	1	6	7	7
RM Maturity	8	8.5	Defined/ Managed	0	2	7	9	6
Housing Maintenance - Responsive	8	8	Adequate	0	2	4	6	6
Governance	8	8	Substantial	0	0	1	1	1
Contact Centre	8	8	Adequate	0	2	2	4	4
Improvement Planning	10	10	Adequate	0	3	2	5	5
PAYE Healthcheck	8	8	Adequate	0	0	6	6	6
Housing Maintenance – Planned	8	8	Adequate	0	1	8	9	9
Housing Rents	7	7	Substantial	0	0	3	3	3
Housing Allocations	10	10	Adequate	0	0	13	13	13
Partnerships	12	10	Substantial	0	0	0	0	0
Income & Debtors	6	6	Substantial	0	0	3	3	3
General Ledger (inc Bud Cont)	6	6	Substantial	0	0	3	3	3
Creditors	6	6	Substantial	0	0	5	5	5
Cash, Banking & TM	6	6	Substantial	0	0	0	0	0

Auditable Area	Planned Work (Days)	Actual Work (Days)	Assurance Level Given	Number of Recommendations made				
				Fundamental	Significant	Merits Attention	In Total	Agreed
Payroll	12	12	Substantial	0	1	0	1	1
Capital Exp. & Asset	7	7	Adequate	0	2	1	3	3
Procurement	8	8	Substantial	0	1	2	3	3
Environmental Health	7	7	Adequate	0	1	6	7	7
NNDR	7	7	Substantial	0	0	7	7	7
Council Tax	7	7	Adequate	0	1	6	7	7
Housing Benefit	14	14	Substantial	0	0	6	6	6
Safeguarding Children		8.5	Adequate	0	0	8	8	8
Performance Mgmt	8	8	Substantial	0	0	1	1	1
<i>Disaster Recovery (Draft)</i>	<i>10</i>	<i>10</i>	<i>Adequate</i>	<i>0</i>	<i>3</i>	<i>4</i>	<i>7</i>	
<i>Section 106 Follow Up (Draft)</i>	<i>3</i>	<i>3</i>	<i>Reasonable</i>	<i>0</i>	<i>1</i>	<i>3</i>	<i>4</i>	
<i>Follow Up (Draft)</i>	<i>7</i>	<i>7</i>	<i>Reasonable</i>	<i>0</i>	<i>4</i>	<i>14</i>	<i>18</i>	
<i>Pro-active Fraud (Draft)</i>	<i>10</i>	<i>5</i>	N/A Advisory	-	-	-	(6)	
Annual Governance Statement	15	12	N/A Advisory	-	-	-	-	-
Contingency	8	9.5						
Total	268	267.5		0	29	137	166	134

Appendix B: Definitions of the levels of assurance and the classification of recommendations.

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

	Level	Effectiveness	Control Adequacy	Control Application
positive opinions	Substantial Assurance	Targets have been met or exceeded.	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Adequate Assurance	Targets have been closely missed or there are appropriate reasons as to why they have not been met	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
negative opinion	Limited Assurance	Targets have not been met and no reasons are given as to why.	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

Recommendations made during the year have been categorised as follows:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits Attention	Action advised to enhance control or improve operational efficiency.

Risk Maturity	Characteristics of your risk management arrangements
Risk Naïve	No formal approach developed for risk management
Risk Aware	Scattered silo based approach to risk management
Risk Defined	Strategy and policies in place and communicated. Risk appetite defined
Risk Managed	Enterprise wide approach to risk management developed and communicated.
	Risk management is considered at the highest level of the business, but could be further developed to inform decision making.
Risk Enabled	Risk management and internal control fully embedded into the operations.
	Risk management is used to help manage the business; consequently the business is able to take risks on an informed basis to achieve its objectives.