

South Cambridgeshire District Council

Strategy for Internal Audit

Update for 2009/10 – 2011/12

For presentation at the Corporate Governance Committee meeting of 30 March 2009

Approved by: Chris Harris, Partner, RSM Bentley Jennison

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1 Introduction

- 1.1 The purpose of internal audit is to provide the Authority, through the Corporate Governance Committee, with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the organisation's agreed objectives. This opinion forms part of the framework of assurances that the Authority receives and should be used to help inform the Annual Governance Statement. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.
- 1.2 Our strategy for 2009/10 – 2010/11 was endorsed by the Corporate Governance Committee in April 2008. The purpose of this document is to update that strategy and to provide a more detailed internal audit plan for 2009/10. Since the Strategy was last endorsed the Corporate Aims have been revised. In addition, the Council are in the process of evaluating the housing transfer option.

2 Internal Audit Standards

- 2.1 Our professional responsibilities as internal auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors (IIA). Our approach to internal audit also meets the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

3 The Updated Audit Plan

- 3.1 The plan has been updated following discussions with the Chief Executive, Executive Director and the Corporate Manager (Finance and Support Services) as well as to reflect changes in the organisation's risk profile.
- 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. Therefore we are able to place reliance on your risk registers to inform the update of the internal audit strategy (see the Risk Maturity Matrix at Appendix A).
- 3.2 The changes made to the internal audit plan for 2009/10 are as follows:
- First Point of Contact Service (Contact Centre) has moved from a topic identified on the strategic risk register to a management concern topic as a result of this dropping off the Strategic Risk Register.
 - Engagement in LAA process and outcomes (Partnerships) has moved from a topic identified on the strategic risk register to a management concern topic.
 - Choice Based Lettings (Housing Allocations) has moved from a topic identified on the strategic risk register to a management concern topic.
 - Customer Service had been added to the Internal Audit three year strategy as a topic identified by management, this could include areas such as complaints management and first response to customers.
 - Insurance has been added to the three year strategy at the request of management.
 - Safeguarding children / protection of vulnerable adults has been added to the three year strategy to support the requirements of the Local Safeguarding Children Board at the request of management.
 - Improvement Planning has been removed from the three year Strategy as the recommendations from the Corporate Governance Inspection report are now embedded within the Authorities business and service plans. The overall Performance Management will be reviewed within a separate audit within the plan.
- 3.3 Based on the work that we have completed within the last two years and by working with South Cambridgeshire District Council on their overall efficiency requirements, we have reduced the estimated annual input from 280 days to 270 days for 2009/10 and 260 days for 2010/11 onwards to reflect the adequacies of the systems that are in place and efficiencies that we can achieve within the audit plan.

4 Your Internal Audit Team

4.1 Your internal audit team is led by Chris Harris.

Your Client Manager is Suzanne Lane.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

5 Considerations Required of the Corporate Governance Committee

Do the Corporate Governance Committee support the Chief Finance Officer's opinion that:

- The detailed internal audit plan for the coming financial year (see Appendix B) reflects the areas that should be covered as priority?
- The updated Strategy for Internal Audit (as set out at Appendix C) covers the organisation's key risks.
- The audit strategy include all those areas that should be subject to internal audit coverage, both in terms of our professional responsibilities as well as covering areas of concern flagged by management?
- The level of audit resource is accepted and agreed as appropriate, given the level of assurance required.

Appendix A: Risk Maturity Matrix

Risk Maturity	Characteristics of your risk management arrangements	RSM Bentley Jennison's Internal Audit Approach
Risk Naïve	No formal approach developed for risk management	Promote risk management, advisory work to help put the risk management framework in place. Rely on internal audit's assessment of risk to drive the internal audit plan.
Risk Aware	Scattered silo based approach to risk management	Promote embedded and joined up risk management activities. Rely on internal audit's assessment of risk to drive the internal audit plan.
Risk Defined	Strategy and policies in place and communicated. Risk appetite defined	Facilitate risk management/liaise with risk management. Review of risk management processes already in place. Internal Audit rely on your assessment of risk, but will also identify other risk areas for internal audit coverage.
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.	Depending on the business's attitude to risk management, provide advice and support to move to a risk enabled organisation. Audit existing risk management processes to confirm effectiveness. Management's assessment of risk drives the audit plan, although internal audit will continue to challenge whether there are other risks that require internal audit coverage.
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.	Audit risk management processes to confirm effectiveness. Management's assessment of risk drives the audit plan, although internal audit will continue challenge whether there are other risks that require internal audit coverage.

Source: Based on Risk Maturity Matrix, Institute of Internal Auditors, Risk Based Auditing Position Statement

Appendix B: Detailed Internal Audit Plan 2009/2010

Risk Based Coverage

Aims, Approaches, Actions

The references are to the Aims, Approaches and Actions adopted by Council on 27 November 2008 with effect from 1 April 2009.

Audit Title	Risk	Mitigating Controls to be considered in IA review	Key outcomes / Performance Measures	Days	Provisional Timing
Aims Approaches Actions – C.i, C.ii.2, E.iii, E.iv.					
Growth	Planning for Growth	<ul style="list-style-type: none"> No evidence of controls in place within the strategic risk register, therefore these will be discussed as part of the scoping of the review. 	No evidence of the KPIs in place within the strategic risk register, therefore, these will be discussed as part of the scoping of the review.	10	To be agreed
Aims Approaches Actions – A.iv.					
Civil Contingencies Act (Business Continuity Plans)	Pandemic 'flu	<ul style="list-style-type: none"> Business Continuity Plan. Avian 'flu risk assessment. Pandemic 'flu risk assessment. Annex to business continuity plan agreed. 	No evidence of the KPIs in place within the strategic risk register, therefore, these will be discussed as part of the scoping of the review.	8	To be agreed
Aims Approaches Actions – A.iv.					
Absence Management	Recruitment and Retention	<ul style="list-style-type: none"> No evidence of controls in place within the strategic risk register, therefore these will be discussed as part of the scoping of the review. However, this review will include an assessment on the existence and implementation of the absence management policy and procedure. 	No evidence of the KPIs in place within the strategic risk register, therefore, these will be discussed as part of the scoping of the review.	8	To be agreed
Aims Approaches Actions – C.iii.					
Housing Futures	Housing Futures Phase Two	<ul style="list-style-type: none"> Scope of audit work to be agreed with management prior to the start of the review. 	KPIs in place to be established with management prior to the start of the review.	10	To be agreed

Coverage for External Audit Reliance or to meet Regulatory Requirements

Audit Title	High Level Controls to be considered in IA review	Scope	Days	Provisional Timing
Corporate Governance	<ul style="list-style-type: none"> To be agreed 	To be agreed	8	To be agreed

Risk Maturity	<ul style="list-style-type: none"> • Risk Management Strategy and Policy; • Strategic Risk Register; • Departmental / Project Risk Register; • Identification, scoring and regular review of risks; • Methods for embedding Risk Management; • Reporting through Management and Corporate Governance Committee. 	Review of how the organisation uses risk management within its management and governance arrangements. In addition this review will follow up on the previous recommendations made.	8	To be agreed
Income & Debtors	<ul style="list-style-type: none"> • Raising and authorisation of invoices; • Chasing of outstanding debts; • Debt write off. 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	7	To be agreed
General Ledger (including budget setting and monitoring)	<ul style="list-style-type: none"> • Access Controls; • Journals; • Month end closedown and reconciliation process; • Annual Budget setting process. 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	7	To be agreed
Creditors	<ul style="list-style-type: none"> • Placing of orders; • Confirmation of goods being received; • Authorisation of Invoices; • Processing of credit notes; • Preparation and authorisation of payment runs. 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	7	To be agreed
Cash, Banking & Treasury Management	<ul style="list-style-type: none"> • Receipt of cash; • Processing of cash payments; • Bank mandate; • Bank reconciliation; • Control over loans and investments where appropriate; 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	7	To be agreed
Payroll (including Expenses & Pensions)	<ul style="list-style-type: none"> • Starters; • Leavers; • Changes to contract details; • Payment authorisation & run; • Authorisation of expenses claims. • Reporting. 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	12	To be agreed

Capital Expenditure and Asset Management	<ul style="list-style-type: none"> • Processing of capital payments; • Maintenance of the asset register; • Internal verification of assets; • Disposals of assets. 	A review of the capital accounting and maintenance of the asset register.	7	To be agreed
Procurement	<ul style="list-style-type: none"> • Compliance with the SFI's / SO's; • Evidence of obtaining quotations and tenders; • Maintenance of tender register; • Payment authorisation. 	A review of procurement/tendering process. Purchase order management. Framework agreements and contracts.	8	To be agreed
NNDR	<ul style="list-style-type: none"> • Procedures & training; • Review of charges; • Processing of discounts / exemptions; • Processing bills; • Debt recovery • Reconciliations. 	A risk based audit of the Authority's processes for the setting and collection of NNDR, including reconciliation to/from Valuation Office listings.	7	To be agreed
Council Tax	<ul style="list-style-type: none"> • Procedures & training; • Review of charges; • Processing of discounts / exemptions; • Processing bills; • Debt recovery; • Reconciliations. 	A risk based audit of the Authority's processes for the setting and collection of Council Tax, including reconciliation to/from Valuation Office listings. Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	7	To be agreed
Housing Benefits	<ul style="list-style-type: none"> • Procedures & training; • Processing of applications; • Checking of applications; • Reporting. 	A risk based audit of the Authority's processes to monitor and manage the validity and accuracy of benefit payments. Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	14	To be agreed
Housing Rents	<ul style="list-style-type: none"> • Setting of Housing Rents; • Rent increases; • Collection of rents; • Rent arrears monitoring and chasing; • Rent arrears reporting. 	A review to ensure that the collection of housing rents is accurate and timely.	8	To be agreed

Advisory Input and Other Internal Audit Coverage

Topic	High Level Scope	Days	Provisional Timing
Performance Management	A review to ensure that the new national performance indicator systems have been established within the Authority and that these are being monitored.	8	To be agreed
Insurance	Review of the processes in place to ensure that appropriate insurance policies held by the Authority, are reviewed on a regular basis and that claims against the policies are adequately handled by the Authority.	6	To be agreed

Topic	High Level Scope	Days	Provisional Timing
Environmental Health	To assist in ensuring an effective Environmental Health service which meets its targets and delivers a customer driven service. The specific scope of the review will be agreed with management prior to the start of the review.	8	To be agreed
Housing Maintenance – Planned & Cyclical	A review to ensure an adequate programme exists for the timely completion of scheduled housing maintenance.	8	To be agreed
Housing Responsive Repairs	A review to ensure that Responsive Repairs are appropriately identified and processed and the stocks and stores of the DLO are appropriately controlled.	8	To be agreed
Housing Allocations and Voids	A review of the choice based letting allocations process to ensure that properties are promptly identified, applicants chosen and void times minimised.	8	To be agreed
Customer Services	A review of customer complaints management following the implementation of the new procedures within the Authority.	8	To be agreed
Contract Services	To review the monitoring and management arrangements of contract/contractors of key service areas.	8	To be agreed
ICT Review	A risk based audit of the Authority's processes to confirm the integrity of security and infrastructure safety, e-government and cost effectiveness. The scope of the review will be based on the outcome of the ICT Healthcheck completed within 2007/08.	10	To be agreed
Proactive Fraud Thematic Review	CIPFA's updated Red Book 2, Managing the Risk of Fraud, was published in November 2008. A high level review of the organisation against the Red Book 2 will be undertaken.	10	To be agreed
Annual Governance Statement / SIC	To aid management in the compilation of the Annual Governance Statement / Statement of Internal Control to ensure that this is an accurate reflection of priority areas.	10	To be agreed
Follow Up	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	7	To be agreed
Audit Management	This will include: <ul style="list-style-type: none"> • Annual planning • Preparation for, and attendance at, Corporate Governance Committee meetings • Regular liaison and progress updates • Liaison with external audit Preparation of the annual internal audit opinion	20	Ongoing

Total

262

Contingency

8

Appendix C: Updated Strategy for Internal Audit 2009/10 – 2011/12

Risk Based Coverage

Aims, Approaches, Actions

The references are to the Aims, Approaches and Actions adopted by Council on 27 November 2008 with effect from 1 April 2009.

Risks	Auditable Area	Objective Type ¹	Source	2009/10	2010/11	2011/12
Aims Approaches Actions – C.i, C.ii.2, E.iii, E.iv.						
Planning for Growth	Growth	Strategic & Operational	Strategic Risk Register number 9	✓		✓
Aims Approaches Actions – A.iv.						
Pandemic 'flu	Civil Contingencies Act (Business Continuity Plans)	Strategic	Strategic Risk Register number 6	✓		✓
Aims Approaches Actions – A.iv.						
Recruitment and Retention	Human Resources and Training	Compliance	Strategic Risk number 11	✓	✓	✓
Aims Approaches Actions – C.iii.						
Housing Future Phase Two	Housing Futures	Strategic & Operational	Strategic Risk number 3	✓		

Coverage for External Audit Reliance or to meet Regulatory Requirements

Systems	Source of Requirement	2009/10	2010/11	2011/12
Corporate Governance	Annual Review of the Authority's Governance processes.	✓	✓	✓
Risk Management	Annual Review of the Authority's Risk Management processes.	✓	✓	✓
Income & Debtors	To ensure all funds due to the Authority are promptly recognised and invoiced for. To confirm there is an adequate and effective debt control process to minimise outstanding debt.	✓	✓	✓
General Ledger (including budget setting and monitoring)	The accuracy and integrity of the general ledger is pivotal in the production of the Authority's accounts. Budget setting and monitoring is a key management tool for revenue and expenditure.	✓	✓	✓
Creditors	Promptness and process of input, approval and payment of supplier invoices to ensure charges made on the Authority are valid and authorised.	✓	✓	✓
Cash, Banking & Treasury Management	To ensure the Authority's bank accounts and cash are adequately controlled and monitored. To ensure that investment opportunities are clearly identified and managed to maximise security where appropriate.	✓	✓	✓
Payroll (including Expenses & Pensions)	To ensure the Authority is compliant with statutory legislation and that all payroll, pension and expense payments are correctly authorised.	✓	✓	✓
Capital Expenditure and Asset Management	This review will focus on the Capital Accounting and expenditure arrangements and will also examine the controls in place to update and manage the asset register and inventories.	✓	✓	✓
Procurement	To review the procurement/tendering process used by the Authority to ensure integrity and compliance with legislation.	✓	✓	✓
NNDR	To ensure that commercial premises are correctly charged for based on reconciliations between the Authority's records and Valuation Office listings.	✓	✓	✓
Council Tax	To ensure domestic properties are correctly charged for based on the CT band settings and reconciliations between the Authority and Valuation Office listings.	✓	✓	✓
Housing Benefits	To ensure that benefits are accessible, correctly calculated, paid	✓	✓	✓

¹ Ref: COSO ERM Framework

	promptly, adequately monitored and accurately recorded with other related areas.			
Housing Rents	To ensure that housing rents are appropriately set, collected and that rent arrears are chase in line with the Councils Policy.	✓	✓	✓

Advisory Input and Other Internal Audit Coverage

Internal Audit Coverage	Source / Rationale	2009/ 10	2010/ 11	2011/ 12
Partnerships	A review of the Authority's partnership arrangements to ensure that the Authority adequately identifies and manages the partnerships they are engaged in.			✓
Health and Safety (Corporate)	To establish that processes are in place to ensure compliance with Health & Safety legislation and that new legislation is acted upon promptly.		✓	
Performance Management	Adequacy of performance management integral part of governance arrangements.	✓	✓	✓
Taxation	To ensure the Authority is correctly identifying VAT, NI and PAYE amounts to be paid promptly and that the payments are reconciled and authorised.			✓
Insurance	To ensure that the Authority has appropriate insurance policies in place, that these are regularly reviewed and claims are appropriately dealt with.	✓		
Environmental Health	To assist in ensuring an effective Environmental Health service which meets its targets and delivers a customer driven service. This could include emergency planning issues.	✓	✓	✓
Housing Maintenance – Planned & Cyclical	Housing stock which is not subject to a good maintenance programme may deteriorate and remedial action may be far more expensive	✓	✓	✓
Housing Responsive Repairs	Responsive Repairs for the Authority are performed by two contractors, the Direct Labour Organisation (DLO) who are the in-house team for South Cambridgeshire District Council, and Cambridge City Services, the maintenance team for Cambridge City Council. This review could include the recording and allocation of repairs, the utilisation of the DLO and the stocks and stores of the DLO. This is a key client facing service.	✓	✓	✓
Housing Allocations and Voids	To ensure that housing stock is allocated promptly to the right applicants through the choice based letting system.	✓	✓	✓
Customer Services	Customer Service arrangements is a key area for the Authority. This review could include customer compliments and complaints or customer first response.	✓	✓	✓
Contact Centre	The first point of contact for the public in reaching the Authority is through calls placed to the Contact Centre run in partnership with Cambridge County Council. As such this is a key client facing service.		✓	
Contract Services	To ensure that contract service delivery is effectively measured and managed through appropriate contract management.	✓		✓
Planning	To establish that the Authority has processes in place to ensure that they are up to date with current legislation and that it is applied where appropriate. To ensure planning applications are processed promptly and delays are identified and dealt with. To ensure a customer driven service is in place.		✓	
Section 106	Section 106 planning gain is an important element of any development and maximum benefit should be achieved.		✓	
ICT Review	An Audit Needs Assessment will be undertaken to assess the proposed Computer Audit work.	✓	✓	✓
Proactive Fraud work	CIPFA's updated Red Book 2, Managing the Risk of Fraud, was published in November 2008. A high level review of the organisation against the Red Book 2 will be undertaken.	✓	✓	✓
SIC / Annual Governance Statement	To ensure that the Annual Governance Statement and Statement of Internal Control is an accurate reflection of priority areas.	✓	✓	✓
Follow Up	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	✓	✓	✓

Audit Management	This will include: <ul style="list-style-type: none"> • Annual planning • Preparation for, and attendance at, Corporate Governance Committee meetings • Regular liaison and progress updates • Liaison with external audit • Preparation of the annual internal audit opinion 	✓	✓	✓
	Total	262	252	252
	Contingency	✓	✓	✓