

RSM Tenon

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Strategy for Internal Audit

2010/11 – 2012/13

For presentation at the Corporate Governance Committee meeting of 31
March 2010

Approved by Chris Harris as Head of Internal Audit

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1 INTRODUCTION

1.1 THE PURPOSE OF INTERNAL AUDIT

The purpose of internal audit is to provide the Council, 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 Council 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.

Our strategy for 2009/2010 was approved by the Corporate Governance Committee in March 2009. The purpose of this document is to update that strategy and to provide a more detailed internal audit plan for 2010/11.

1.2 OUR RESPONSIBILITIES

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).

As such, our approach to internal audit also meets the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

In line with these requirements, we perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, in particular to how those elements contribute to how the organisation will achieve its objectives.

2 THE UPDATED INTERNAL AUDIT PLAN

2.1 HOW THE STRATEGY WAS DEVELOPED

The plan has been updated following discussions with the Chief Executive, Executive Director Corporate Services and Executive Director Operational Services, and taking into account concerns identified by the Corporate Governance Committee as well as changes in the organisation's risk profile.

In 2009/10 we undertook a review of the organisation's risk maturity and concluded that South Cambridgeshire District Council is a risk managed organisation. Therefore we are able to place reliance on your risk registers / assurance framework to inform the update of the internal audit strategy (see the Risk Maturity Matrix at Appendix A).

The changes made to the internal audit plan for 2010/11 are as follows:

- Medium Term Financial Plan has been added to the audit plan as this is a key area for the Council and a risk that is now included within the Strategic Risk Register.
- We have added an Asset Management (Housing) review to our audit strategy to ensure that adequate controls are in place for the monitoring and reviewing the use of the Housing Stock including compliance with the Decent Homes Standards.
- An annual review of Council Grants has been added to the audit plan to ensure that grants are being used as specified and documentation is held to support this.
- Housing Future has now been removed from the three year strategy as this is no longer relevant to the Council.
- Recruitment and Retention has been removed from risk based audits as no longer included on Strategic Risk Register, however this is still included within the three year strategy as part of the Human Resources audits.
- The Customer Services audit has been removed from the 2010/11 audit plan as there is currently considerable work being undertaken within the Council on this area including accreditation that the Council are working to achieve.

3 INTERNAL AUDIT RESOURCES

3.1 YOUR INTERNAL AUDIT TEAM

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.

3.2 INTERNAL AUDIT FEES

In line with our tender and subsequent engagement letter, the fee for your internal audit service for 2010/11 is £79,222 which is based on an estimated input of 260 days. A breakdown of and fees for each assignment is provided at Appendix B as part of the detailed internal audit plan for 2010/11.

We have been reviewing our internal audit planning mechanism to ensure we provide sufficient information to support our clients' risk management processes. A key aspect is the relationship between risk and the cost of providing assurance. Thus our plan for 2010/11 details the total cost of each review to enable management and the Corporate Governance Committee to make an informed judgement on that risk vs. assurance cost.

4 CONSIDERATIONS REQUIRED OF THE CORPORATE GOVERNANCE COMMITTEE

- Does the Strategy for Internal Audit (as set out at Appendix A) cover the organisation's key risks as they are recognised by the Corporate Governance Committee?
- Does the audit strategy include all those areas that the Corporate Governance Committee would expect to be subject to internal audit coverage, both in terms of our professional responsibilities as well as covering areas of concern flagged by management?
- Is the level of audit resource accepted by the Committee and agreed as appropriate, given the level of assurance required?
- Does the detailed internal audit plan for the coming financial year (see Appendix B) reflect the areas that the Corporate Governance Committee believe should be covered as priority?

APPENDIX A: RISK MATURITY MATRIX

Risk Maturity	Characteristics of your risk management arrangements	RSM Tenon's Internal Audit Approach
Risk Naïve	No formal approach developed for risk management	<p>Promote risk management, advisory work to help put the risk management framework in place.</p> <p>Rely on internal audit's assessment of risk to drive the internal audit plan.</p>
Risk Aware	Scattered silo based approach to risk management	<p>Promote embedded and joined up risk management activities.</p> <p>Rely on internal audit's assessment of risk to drive the internal audit plan.</p>
Risk Defined	Strategy and policies in place and communicated. Risk appetite defined	<p>Facilitate risk management/liaise with risk management. Review of risk management processes already in place.</p> <p>Internal Audit rely on your assessment of risk, but will also identify other risk areas for internal audit coverage.</p>
Risk Managed	<p>Enterprise wide approach to risk management developed and communicated.</p> <p>Risk management is considered at the highest level of the business, but could be further developed to inform decision making.</p>	<p>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.</p> <p>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.</p>
Risk Enabled	<p>Risk management and internal control fully embedded into the operations.</p> <p>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.</p>	<p>Audit risk management processes to confirm effectiveness.</p> <p>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.</p>

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

APPENDIX B: DETAILED INTERNAL AUDIT PLAN 2010/2011

RISK BASED COVERAGE

Audit Title	Risk	Mitigating Controls to be considered in IA review	Fee per assignment	Provisional Timing	
Aims Approaches Actions – A.v.					
Financial and Control	Planning Budgetary	Medium Financial (MTFS) Term Strategy	<ul style="list-style-type: none"> ▪ Annual review of assumptions. ▪ Annual approval of Budget. ▪ Annual review of Medium Term Financial Plan. ▪ Monitoring of the Budget and the Financial Plan. ▪ Regular reporting of the actual against Budget and Financial Plan. 	£2,726	Q3
Total			£2,726		

COVERAGE FOR EXTERNAL AUDIT RELIANCE OR TO MEET REGULATORY REQUIREMENTS

Audit Title	High Level Controls to be considered in IA review	Scope	Fee per assignment	Provisional Timing
Corporate Governance	<ul style="list-style-type: none"> ▪ To be agreed 	To be agreed	£2,726	Q4
Risk Management and Assurance Stocktake	<ul style="list-style-type: none"> ▪ Risk Management Strategy ▪ Risk Register ▪ Risk reporting ▪ Identification and use of assurances. 	Follow up of the 2009/10 Risk Maturity review. In addition, this will include an Assurance Stocktake Thematic Review.	£2,726	Q2
Income & Debtors	<ul style="list-style-type: none"> • Raising and authorisation of invoices; • Chasing outstanding debts; • Debt write off. 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	£1,524	Q3

General Ledger	<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.	£1,524	Q3
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.	£1,524	Q3
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.	£1,524	Q3
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.	£2,398	Q3

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.	£2,411	Q3
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.	£2,411	Q4
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.	£1,524	Q3
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.	£1,524	Q3

Housing Benefits	<ul style="list-style-type: none"> • Procedures training; • Processing applications; • Checking of applications; • Reporting. 	& of of	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.	£3,874	Q4
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. 	of of	A review to ensure that the collection of housing rents is accurate and timely.	£1,698	Q2
Total				£27,388	

OTHER INTERNAL AUDIT WORK

Topic	High Level Scope	Fee per assignment	Provisional Timing
Safeguarding	An annual review to ensure the Authority are completing and can support the self-assessment Checklist on 'The Implementation of the Key Safeguarding Employment Standards'.	£2,726	Q3
Health and Safety	Gas Safety - Landlords must have gas fittings checked and certified each year. Where this is contracted out, the local authority needs assurance and evidence that this has been done.	£1,349	Q1
Human Resources	Specific area of HR to be agreed with management prior to completion of the work being completed. This may be the area of Absence Management.	£1,698	Q1
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.	£2,726	Q4
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.	£2,726	Q4
Housing Maintenance – Planned & Cyclical	A review to ensure an adequate programme exists for the timely completion of scheduled housing maintenance.	£1,698	Q1

Topic	High Level Scope	Fee per assignment	Provisional Timing
Housing Responsive Repairs	The Council are currently reviewing the procurement of the responsive repairs service, following their review; we will undertake an internal audit to ensure that adequate arrangements are in place for the identification and allocation of responsive repairs.	£1,698	Q4
Asset Management (Housing)	To ensure that the Authority is maintaining the standards of its housing stock and undertaking adequate options appraisals where required. The audit will review the use stock conditions survey and link to compliance with the Decent Homes Standards.	£2,726	Q2
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.	£1,698	Q2
Contact Centre	To review the arrangements in place for the training of staff and monitoring of performance within the Contact Centre run in partnership with Cambridge County Council. This service is currently being reviewed, therefore the scope of our work will be agreed with management to compliment the Council's review.	£1,349	Q4
Planning	To ensure the Authority is up to date with current legislation that 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.	£2,095	Q2
Section 106	To review Section 106 planning gain benefits.	£2,095	Q2
ICT Review	A review of the Authorities arrangements in place for Code of Connections.	£3,945	Q3
Grant Validation	To provide assurance that the grant has been used for the required purposes.	£2,726	Q2
Annual Governance Statement	To aid management in the compilation of the Annual Governance Statement to ensure that this is an accurate reflection of priority areas.	£5,081	Q4
Follow Up	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	£1,524	Q4

Topic	High Level Scope	Fee per assignment	Provisional Timing
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	£11,248	Ongoing
Total		£49,108	
TOTAL FOR 2010/11 Internal Audit Plan		£79,222	

APPENDIX C: UPDATED STRATEGY FOR INTERNAL AUDIT 2010/11 – 2012/13

RISK BASED COVERAGE

Risks	Auditable Area	Objective Type ¹	Source	2010/11	2011/12	2012/13
Aims Approaches Actions – A.v.						
Medium Term Financial Strategy (MTFS)	Financial and Planning Budgetary Control	Strategic & Reporting	Strategic Register Risk	✓		✓
Aims Approaches Actions - C.i, C.ii.2, E.iii, E.iv.						
Planning for Growth	Growth	Strategic & Operational	Strategic Register Risk		✓	
Aims Approaches Actions – A.iv.						
Pandemic 'flu	Civil Contingencies Act (Business Continuity Plans)	Strategic	Strategic Register Risk		✓	

COVERAGE FOR EXTERNAL AUDIT RELIANCE OR TO MEET REGULATORY REQUIREMENTS

Systems	Source of Requirement	2010/11	2011/12	2012/13
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	The accuracy and integrity of the general ledger is pivotal in the production of the Authority's accounts.	✓	✓	✓
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.	✓	✓	✓

¹ Ref: COSO ERM Framework

Systems	Source of Requirement	2010/11	2011/12	2012/13
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 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 Coverage	Audit	Source / Rationale	2010/11	2011/12	2012/13
Safeguarding		An annual review to ensure the Authority are completing and can support the self-assessment Checklist on 'The Implementation of the Key Safeguarding Employment Standards'.	✓	✓	✓
Partnerships		A review of the Authority's partnership arrangements to ensure that the Authority adequately identifies and manages the partnerships they are engaged in.		✓	
Health and Safety		To establish that processes are in place to ensure compliance with Health & Safety legislation and that new legislation is acted upon promptly.	✓		
Human Resources		One of the key platforms to the effective delivery of the Authority's objectives is through its human resource.	✓	✓	✓
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.			✓

Internal Coverage	Audit	Source / Rationale	2010/11	2011/12	2012/13
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 Repairs	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.	✓	✓	✓
Asset Management (Housing)		To ensure that the Authority is maintaining the standards of its housing stock. The audit will review the stock conditions survey and link to compliance with the Decent Homes Standards.	✓		✓
Housing Allocations and Voids		To ensure that housing stock is allocated promptly to the right applicants through the choice based letting system.	✓	✓	✓
Customer Services		Customer Service arrangements is a key area for the Authority. This review could include customer compliments and complaints or customer first response.		✓	✓
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.	✓	✓	✓
Grant Validation		To provide assurance that the grant has been used for the required purposes.	✓	✓	✓

Internal Coverage	Audit	Source / Rationale	2010/11	2011/12	2012/13
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.		✓	✓
Annual Governance Statement		To ensure that the Annual Governance Statement 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 	✓	✓	✓

In developing your internal audit plan for 2010/11 we have noted various areas of your Strategic Risk Register where no specific internal audit work is being carried out. These are listed below and the risk descriptions are taken directly from the Strategic Risk Register:

- Housing services budgeting and staffing
- EU Services Directive
- Making Cambridgeshire Count
- Equalities
- Illegal Traveller encampments or developments
- Climate change adaptation
- Lack of development progress
- LAA actions
- Embedding values