

RSM Tenon

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SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Internal Audit Annual Report

Year Ended 31 March 2010

Presented at the Corporate Governance Committee meeting of: 29 June
2010

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. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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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 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 Tenon

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 Tenon 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 2009/2010

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

This annual Head of Internal Audit opinion is provided to South Cambridgeshire District Council by RSM Tenon Limited. RSM Bentley Jennison was appointed to provide internal audit services to the organisation from April 2007. At the end of 2009, RSM Bentley Jennison merged with the Tenon Group to form RSM Tenon.

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.

In our opinion, based upon the work we have undertaken, for the 12 months ended 31 March 2010 South Cambridgeshire District Council has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

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 2010 (see and Appendix A for a summary of audits);
- The results of follow-up action taken in respect of audits from previous years;
- The acceptance of fundamental or significant recommendations by management;
- 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 and/or Council;
- That no undue limitations have been placed on the scope of internal audit;
- There that have been no undue resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- The 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 2009/10 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 Member Training and Development. The 2009/10 Internal Audit review found that taking account of the issues identified in our opinion the Council can take **adequate 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 2009/10 we undertook a review of the organisation's risk maturity and concluded that South Cambridgeshire District Council is a **Risk Managed** organisation. (see appendix B for definition of Risk Maturity)

Internal Control

All except one reports issued to date have resulted in positive assurance levels, these being either substantial or adequate assurance. The one exception to this is the ICT Review. Further details of this 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 in addition to the outstanding recommendations identified within our follow up work. We will undertake a follow up review of this area during 2010/11 to confirm that these actions have been taken.

Acceptance of Recommendations

All recommendation made during the year were accepted by management with the exception of three merits attention recommendations within the ICT Review.

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

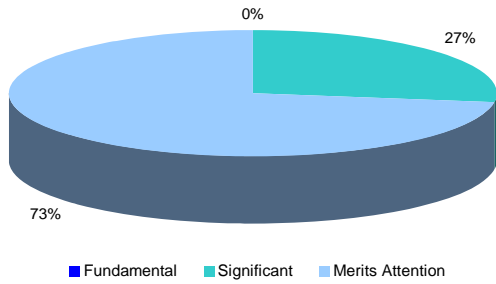
We have not undertaken any work or activity during 2009/10 that would lead us to declare any conflict of interests.

2.7 BENCHMARKING DATA

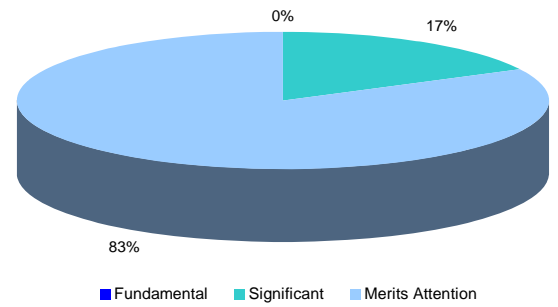
The tables below show the split of internal audit recommendations and opinions for South Cambridgeshire District Council in 2009/10 and those made in 2008/09.

Comparison of the categories of internal audit recommendations made 2009/10 and 2008/09

Recommendations 2009/10



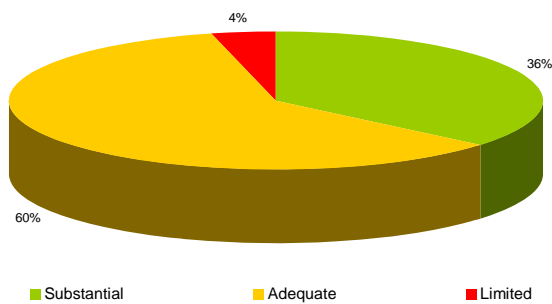
Recommendations 2008/09



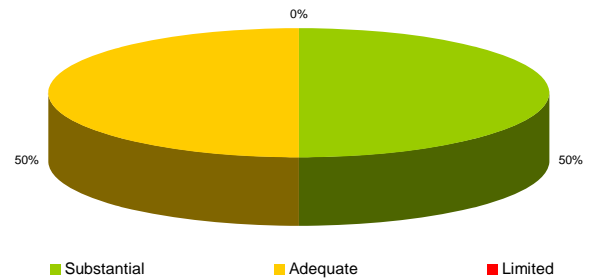
Comparison of assurance levels provided by internal audit in 2009/10 and 2008/09

For assurance assignments only

Assurance Levels 2009/10



Assurance Levels 2008/09



APPENDIX A: INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS 2009/10

| Auditable Area | Assurance Level Given | Number of Recommendations made | | | | |
|--|-----------------------|--------------------------------|-------------|------------------|----------|-----------------------|
| | | Fundamental | Significant | Merits Attention | In Total | Agreed |
| Housing Responsive Maintenance | Adequate | 0 | 0 | 11 | 11 | 11 |
| Housing Maintenance – Planned and Cyclical | Adequate | 0 | 2 | 7 | 9 | 9 |
| Absence Management | Adequate | 0 | 2 | 5 | 7 | 7 |
| Emergency Planning and Business Continuity (Civil Contingency Act) | Substantial | 0 | 1 | 3 | 4 | 4 |
| Review of Counter Fraud Arrangements | Advisory | 0 | 2 | 6 | 8 | 8 |
| Contract Services – Regular and High Payments Review | Adequate | 0 | 4 | 4 | 8 | 8 |
| Housing Rents | Adequate | 0 | 2 | 3 | 5 | 5 |
| Risk Maturity | Risk Managed | 0 | 2 | 10 | 12 | 12 |
| Housing Allocations and Voids | Adequate | 0 | 0 | 6 | 6 | 6 |
| ICT Review | Limited | 0 | 16 | 8 | 24 | 21 (3 MAs not agreed) |
| General Ledger (Including Budgetary Control) | Adequate | 0 | 0 | 4 | 4 | 4 |
| Capital Expenditure and Asset Management | Adequate | 0 | 2 | 4 | 6 | 6 |
| Payroll (including Expenses and Pensions) | Substantial | 0 | 0 | 0 | 0 | 0 |

| Auditable Area | Assurance Level Given | Number of Recommendations made | | | | |
|---|-----------------------|--------------------------------|-------------|------------------|----------|--------|
| | | Fundamental | Significant | Merits Attention | In Total | Agreed |
| Cash, Banking and Treasury Management | Substantial | 0 | 0 | 1 | 1 | 1 |
| Income and Debtors | Substantial | 0 | 0 | 4 | 4 | 4 |
| Creditors | Substantial | 0 | 0 | 5 | 5 | 5 |
| Procurement | Adequate | 0 | 3 | 2 | 5 | 5 |
| Insurance | Adequate | 0 | 3 | 3 | 6 | 6 |
| Council Tax | Substantial | 0 | 1 | 5 | 6 | 6 |
| National Non Domestic Rates | Adequate | 0 | 2 | 2 | 4 | 4 |
| Performance Management | Substantial | 0 | 0 | 3 | 3 | 3 |
| Housing Benefit | Substantial | 0 | 0 | 7 | 7 | 7 |
| Environmental Health – Scores on the Doors | Adequate | 0 | 1 | 9 | 10 | 10 |
| Customer Services – Complaints | Adequate | 0 | 3 | 1 | 4 | 4 |
| Corporate Governance – Members Training and Development | Adequate | 0 | 2 | 5 | 7 | 7 |
| Follow Up | Reasonable | 0 | 1 | 10 | 11 | 11 |
| Planning for Growth | Adequate | 0 | 0 | 2 | 2 | 2 |
| Carbon Management (draft) | N/A Advisory | - | - | - | 3 | |
| Annual Governance Statement | N/A Advisory | - | - | - | - | - |
| Contingency – Top Up Testing | Substantial | 0 | 1 | 3 | 4 | 4 |

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 Design | 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. |

Within our **risk maturity** reviews, we have gauged organisations’ risk maturity on a scale from risk naïve to risk enabled:

