

RSM! Tenon

DRAFT SUBJECT TO AUDITS BEING FINALISED

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Internal Audit Annual Report for the Year Ended 31 March 2011

June 2011

Presented at the Corporate Governance Committee meeting of: 08 July 2011

Approved by: Dan 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 Section 151 Officer, Council and Corporate Governance Committee.

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 2010/2011

2.1 Context

As the provider of the internal audit service to South Cambridgeshire District Council we provide the Section 151 Officer and 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.

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 2011 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 2011 (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 high or medium 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 and/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

Governance

Our review of the Council's Governance arrangements included a review of the members code of conduct, register of interest, declaration of interest and gifts and hospitality. The Council can take substantial assurance that the controls upon which the Council relied on to manage this area were suitably designed, consistently applied and effective.

Risk Management

Our review of Risk Management and Assurance Stocktake included key documents such as the Risk Management Policy, Strategy, procedures, and risk registers. Our review also examined the reporting and monitoring of risks throughout the organisation as well as the use of assurances as part of the risk management process.

The outcome of this stock take review has highlighted the need for the organisation to more clearly define and document the assurances in place and to use assurances to inform the decision making process.

Internal Control

All except one report issued resulted in positive assurance opinions. The one red opinion (negative opinion) report was in relation to Health and Safety - Tenant Electrical Safety Programme, where issues were identified with the recording of electrical safety testing completed and retention of the safety certificates.

As part of the 2010/11 Internal Audit Plan we undertook a follow up of this audit work towards the end of the year and found that adequate progress had been made on implementing the recommendations. Ten further reports received amber ratings of which four were amber red.

These were HR Absence Management, Capital Expenditure and Asset Management, Follow Up on GCSX CoCo Annual Assessment and Planning.

In addition to the Follow Up reviews mentioned above, we also undertook follow up reviews of Housing Responsive Maintenance where we found little progress has been made, management have advised that this was due to the update of the Housing Management System and the upcoming tender for the responsive maintenance contactor. In addition, we found within our HR Absence Management and General Follow Up that adequate progress had been made.

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 2011/12 to confirm that these actions have been taken.

Acceptance of Recommendations

All except one recommendation made during the year were accepted by management. The one recommendation not agreed was within the GCSX CoCo Annual Assessment, where a low recommendation in relation to the servers being configured with static ARP or DNS tables. Management did not accept the recommendation due to the level of resources required to implement the recommendation.

2.5 Governance Statement

The overall opinion may be used by the Section 151 officer and the Council in the preparation of the annual governance statement.

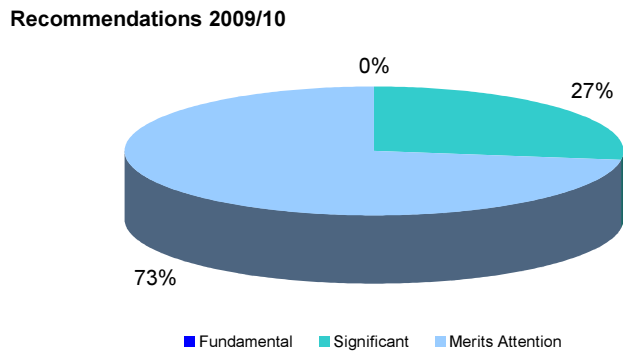
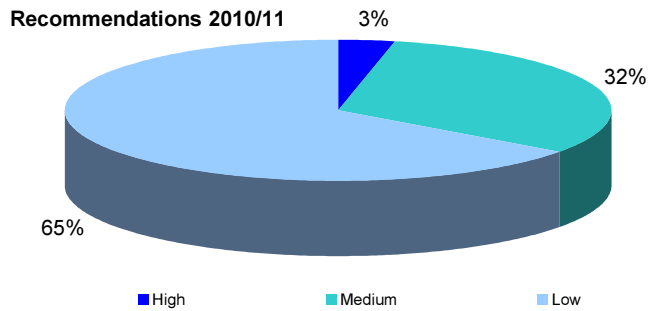
2.6 Conflicts of Interest

We have not undertaken any work or activity during 2010/11 that would lead us to declare any conflict of interests.

2.7 Benchmarking data

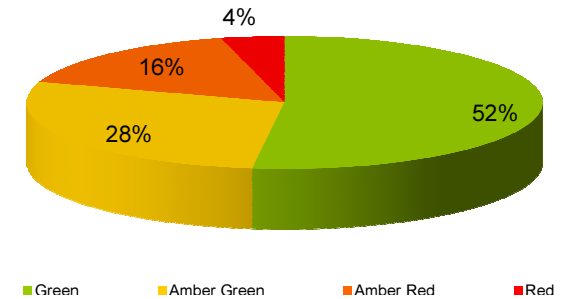
The tables below show the split of internal audit recommendations and opinions for South Cambridgeshire District Council in 2010/11 against those made in 2009/10.

Comparison of the Number of Recommendations Made

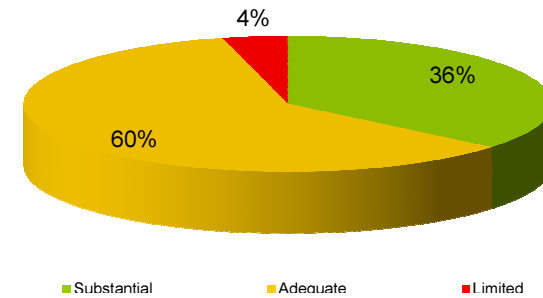


Comparison of the Assurance Levels

Assurance Levels 2010/11



Assurance Levels 2009/10



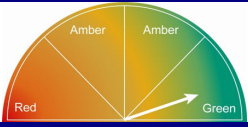
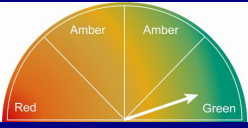
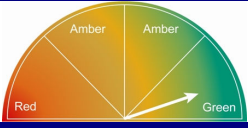
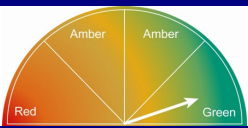
At the beginning of the year, we implemented a new RAG rating system for our opinions. The charts above have identified that the opinions are largely similar to the previous year. This year we have shown a split between the Amber Red and Amber Green opinions; under previous years these would have been classed as Adequate. This split gives the Council a clearer indication of the strengths and areas for further enhancement in control. In 2009/10 the Council had one Limited, 15 Adequate and nine Substantial assurances, compared to one Red, four Amber Red, seven Amber Green and 13 Green opinions in 2010/11.

APPENDIX A: INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS 2010/2011

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
H&S - Tenant Electrical Safety Programme		3	2	7	12	12
HR - Absence Management		0	3	2	5	5
Housing Maintenance-Planned & Cyclical		0	3	3	6	6
Follow Up - Housing - Responsive Maintenance	Little Progress	0	2	5	7	7
HR – Redundancy	Advisory	-	-	-	13	13
Homelessness and Housing Advice		0	0	11	11	11
Section 106		0	1	1	2	2
Asset Management (Housing)		0	2	1	3	3

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
General Ledger		0	0	1	1	1
Payroll		0	0	1	1	1
NNDR		0	4	3	7	7
Income and Debtors		0	0	1	1	1
Procurement		0	0	2	2	2
Housing Rents		0	0	4	4	4
Council Tax		0	2	2	4	4
Cash, Banking and Treasury Management		0	0	2	2	2

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
Financial Planning & Budgetary Control		0	1	1	2	2
Payments and Creditors		0	1	4	5	5
Risk Management and Assurance Stocktake	Advisory	1	1	5	7	7
Capital Expenditure and Asset Management – CURRENTLY DRAFT REPORT		1	4	5	10	
Safeguarding		0	2	7	9	9
Reconciliations		0	1	2	3	3
Follow Up GCSX CoCo Annual Assessment		0	7	6	13	12
Planning		0	5	6	11	11

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
Housing Benefits		0	0	0	0	0
Corporate Governance		0	0	1	1	1
Environmental Health - Health & Safety		0	0	3	3	3
Follow Up - Health and Safety and Electrical Safety Programme	Adequate Progress	0	2	1	3	3
Follow Up - HR Absence Management	Adequate Progress	0	0	2	2	2
Follow Up – CURRENTLY DRAFT REPORT	Adequate Progress	0	3	5	8	
Financial Top Up Testing		0	0	1	1	1
Total		5	46	95	159 (13 not categorised)	140 (18 not yet responded)

APPENDIX B: DEFINITIONS OF THE LEVELS OF ASSURANCE AND THE CLASSIFICATION OF RECOMMENDATIONS

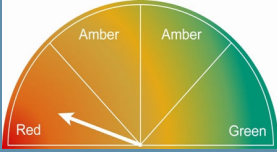
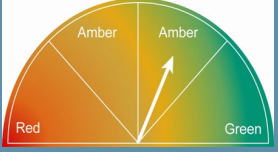
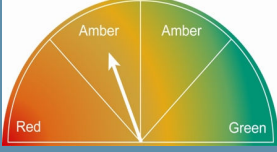
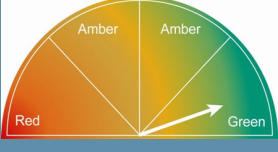
Recommendation Categorisation

Our findings and recommendations are categorised as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	

Opinions

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

Opinion	Description	Opinion	Description
	<p>Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk/area are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.</p>		<p>Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk/area are suitably designed, consistently applied and effective.</p> <p>However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.</p>
	<p>Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk/area are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.</p>		<p>Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk/area are suitably designed, consistently applied and effective.</p>