

**CAMBRIDGE CITY COUNCIL****INTERNAL AUDIT: OPERATIONAL PLAN 2011 / 2012****1. Introduction**

This document sets out the division of responsibilities between managers and Internal Audit Services, and presents the Internal Audit Operational Plan for 2011 / 2012.

**2. Division of Responsibilities**

It is management's responsibility to manage the Council systems in a manner in which:

- Ensures the plans and intentions of the organisation are delivered, (including those outlined in plans, policies and procedures) and are in compliance with the laws / regulations under which the organisation operates;
- Ensures the reliability of data and information used either internally or reported externally;
- Safeguards the organisation's resources; and
- Promotes efficient and effective operations.

Controlling is an integral part of managing operations and as such internal auditors independently review how efficiently management discharges this aspect of its responsibilities by evaluating the effectiveness of systems and controls and providing objective analysis and constructive recommendations. Management retain full ownership and responsibility for the implementation of any agreed actions .

**3. Development of the Internal Audit Operational Plan**

In developing the Annual Plan, it is important that audit resources are directed in line with the priorities of the Council, taking into account an assessment of risk. In order to achieve this, a systematic assessment and planning methodology is used, as set out in the Audit Strategy.

The methodology results in a plan that is supportive of Directors in delivering the strategic priorities and corporate improvement priorities of the Council and provides a view of the overall internal control environment, a key part of Corporate Governance. This is split into three key elements:

- Assessing the present – fundamental assurance;
- Assessing the future; and
- Improving business performance and delivering future value.

**Assessing the Present – Fundamental Assurance**

Core systems assurance will continue to be a fundamental requirement at the Council. We consider that a key requirement will be to receive fundamental assurance reviews at the right time to ensure that external audit can place reliance on our work. This will cover areas such as business systems; projects and major contracts; financial systems; safeguarding assets; and corporate governance.

**Assessing the Future**

By adopting a risk based audit approach there will be clear linkage between the significant risks identified in the Council's Risk Registers and the work undertaken by internal audit in providing assurance against these. The definition of risk is "*anything*

*that will prevent you from achieving your objectives*". As a result, the starting point for a risk based audit is an understanding of the Council's objectives. As well as looking at the risk management framework and governance procedures, we will also cover systems development; investment decisions; emerging risks and due diligence.

#### Delivering Value through Improved Performance

A significant element of the internal audit plan will remain focused on fundamental assurance. However, over time as risk management processes develop and the internal control environment strengthens, we would expect this proportion of the audit plan to reduce. This will enable us to concentrate more of our resources on assisting the Council in areas such as strategy, efficiency gains, process improvements and delivering savings.

#### **4. Draft Operational Audit Plan**

The plan is developed with the Corporate Objectives of the Council in mind. All of the reviews undertaken are underpinned by the driving principle to be "delivering value for money", but they also have an impact on the organisation's strategic vision. The plan highlights how our work links to the vision identified.

The number of planned audit days is based on a full complement of staff - 6.02 FTE. Any shortfall in resources will be managed by removing lower priority work from the plan and / or reducing the scope of some reviews. Civic Affairs Committee will be regularly updated on any significant amendments.

Those areas not included in the plan this year will be considered for review on a cyclical basis in future years. However, it is anticipated that audits of low priority areas will not occur unless a risk assessment results in an increased priority level.

The plan for 2011 / 2012 is not a static document. The Head of Internal Audit reserves the right to amend plans in line with emerging risks and changing priorities as they occur throughout the year, following consultation with the s151 officer. Any major changes in the plan will be discussed with those charged with governance and reported to the Civic Affairs Committee. The following key points are of note:

#### Core Systems Assurance Work

Audits of the main financial systems of the Council are undertaken on a cyclical basis, in consultation with the Audit Commission. The Audit Plan detailed below highlights all the core systems that will be reviewed over approximately a 3-year cycle - provided for information purposes only. We will adopt a key-control approach for these audits. The audit plan details for 2011 / 2012 that the team will carry out reviews of Housing Benefits (against an annual diagnostic tool), the Main Accounting System, National Non-Domestic Rates, and BACS Payments. We will co-ordinate our work with that of the Audit Commission to ensure that reliance can be placed on the work provided by Internal Audit in accordance with their rolling programme.

#### Annual Governance and Assurance Framework

Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Internal Audit will continue to undertake reviews to support this process covering areas such as governance arrangements for partnerships, the risk management process, project management and information governance.

Corporate Cross Cutting Reviews

The plan has been developed to test the adequacy and effectiveness of the control environment put in place to mitigate various principal risks and also to provide the assurance required on key controls which impact on the whole Council. Examples of the audits planned this year include reviews of health and safety and compliance with delegation levels.

Contracts and Projects

These areas have been identified as a continuing risk in light of their increasing number, their importance in relation to the Council's overall aims and objectives and their, at times, complex linkages and funding arrangements. Internal Audit will review specific projects. We will also carry out some themed audits, picking up on particular aspects of the project management process, such as the Gateway Review process and Post Implementation Reviews.

Contract activity will be based on the works channeled through the central procurement team and will look at the various stages of contract work (i.e. tendering arrangements, awarding of contracts, contract monitoring etc).

Department Specific Audits

These are audits agreed following discussions at each departmental management team, and represent areas identified where management assurance is required, whether it is at a pre- or post-implementation stage.

Corporate Support

Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks, together with special investigations that may arise. Contingency time is included within corporate support for such events along with the provision for consultancy work that may be undertaken by the Head of Internal Audit or other members of staff. Other activities are also included, such as Civic Affairs (Audit Committee) support and External Audit liaison.

**5. Reporting Protocols**

At the conclusion of each individual audit a Draft Report and proposed Action Plan will be forwarded to the appropriate manager within the client department. Once agreement has been reached a Final Report and Action Plan will be forwarded to the relevant Director. All Members will have access to Audit Reports through the secure Intranet site.

A progress report will be presented to the Audit Committee indicating the level of achievement against agreed targets and any major findings arising from the audit work undertaken. An annual report will be prepared for Audit Committee in order to give assurance or otherwise to Members that they can rely on the internal control framework of the Council.

**6. Detailed Plan**

Documented below is the audit activity proposed, with its link to the strategic vision, where appropriate.

**CAMBRIDGE CITY COUNCIL: INTERNAL AUDIT PLAN 2011 / 2012**

## VISION FOR THE CITY

OBJECTIVE
1 A City which is diverse and tolerant, values activities which bring people together and where everyone feels they have a stake in the community
2 A City which recognises and meets needs for housing of all kinds - close to jobs and neighbourhood facilities
3 A City which draws inspiration from its iconic historic centre and achieves a sense of place in all of its parts with generous urban open spaces and well designed buildings
4 A City in the forefront of low carbon living and minimising its impact on the environment from waste and pollution
5 A City whose citizens feel they can influence public decision making and are equally keen to pursue individual and community initiatives
6 A City where people behave with consideration for others and where harm and nuisance are confronted wherever possible without constraining the lives of all
7 A City where getting around is primarily by public transport, bike and on foot
8 A City with a thriving knowledge-based economy that benefits the whole community and builds on its reputation as a global hub of ideas and learning
9 Objectives 1 – 8 underpinned by: A City seeking to achieve value for the public money the Council spends

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment which encompasses the systems of governance, risk management and internal control, by evaluating its effectiveness in achieving the organisation's objectives. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, efficient and effective use of resources (*CIPFA Code of Practice for Internal Audit in Local Government 2006*).

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Critical		
			Yes	Reason	TOTAL
<b>CORE SYSTEM ASSURANCE WORK</b>					
Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems. These therefore feature in the plan every year.					
Housing Benefit	9	To consider Assessment / Payment and Output; Overpayments; Rent Officer Referrals; Performance Review; Fraud Prevention and Detection; Accounting arrangements; systems and data secure. Review IT system controls. Annual up-rating of checklist and software diagnostic tool.	Yes	External Audit reliance work	12
Council Tax	9	The audit will focus on controls in place to ensure the completeness, promptness, accuracy and validity of Council Tax transactions, including access restrictions, authorisations, accuracy checks on input, segregation of duties and error detection. Includes liaison with External Audit requirements and testing of IT system control.	-		-
NNDR	9	To review the property register; liable persons / discounts and exemptions evidenced and recorded; amounts due calculated accurately / promptly demanded; income received and accounted for; non-payment identified and pursued; systems and data secure. Review IT system controls.	Yes	External Audit reliance work	12
Main Accounting	9	System based approach considering key risk exposures. Included mapping of key control areas and liaison with External Audit requirements. Testing adequacy of input controls and including feeder system interfaces into the general ledger and reconciliation of control and suspense accounts. Review IT system controls.	Yes	External Audit reliance work	12
Treasury Management	9	To review the processes and procedures in dealing with and recording short term and long term investments and borrowings as well as evaluating the controls in place to mitigate against risks faced by Cambridge City Council as a result of the economic climate	-		-
Accounts Payable	9	Systems based approach considering key risk exposures. Include mapping of key control areas and liaison with External Audit requirements. Testing to provide assurance that accurate, timely payments are made which are only to bona fide creditors for goods and services provided for the benefit of the Council, including testing of authorisation controls. Review IT system controls.	-		-

Payroll	9	Substantive "cradle to grave" approach, following through samples of payments for example, permanent and temporary changes to pay. Testing to include authorisation controls at budget manager level. Review IT system controls.	-		-
Accounts Receivable – Debt Recovery Process	9	Systems based approach considering key risk exposures. Include mapping of key control areas and liaison with External Audit requirements. Testing to provide assurance that all income due is identified, invoiced, collected and recorded accurately and timely, including checking of controls over income in a sample of budget areas. Review IT system controls.	-		-
Fixed Asset Register / Capital Accounting	9	To evaluate the controls in operation for the identification of assets, disposal and transfers to the fixed asset register system, together with the accounting processes that have been adopted. Assess how future costs of repairs and maintenance are being identified and budgeted for.	-		-
Rent Accounting	9	The audit will review system access controls, debit creation, rent collection and arrears management	-		-
BACS Payments	9	The BACS system processes £millions each year through Payroll, Creditors etc. We will seek assurance that the controls including transfer of data from feeder systems are adequate. We will also ensure that payments made through BACS are accurately recorded on Oracle and that appropriate segregation of duties is maintained.	Yes	External Audit reliance work	12
VAT	9	To provide assurance that VAT is correctly accounted for by the authority and on a timely basis.	-		-
				<b>TOTAL</b>	<b>48</b>

ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK					
Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement					
Annual Governance Statement Assurance Framework	ALL	Process and framework to feed into work on Annual Governance Statement, including the review recommendations made by Audit Commission in their annual letter and verify implementation (progress).	Yes	Corporate responsibility	15
Annual Audit Opinion	ALL	Head of Internal Audit opinion on the state of governance and the internal control framework in place within Cambridge City Council.	Yes	Corporate responsibility	5
Internal Audit Effectiveness	9	Review of the internal audit service against best practice guidelines.	Yes	Corporate responsibility	5
National Fraud Initiative	ALL	Key contact role and coordination of investigation of matches from NFI.	Yes	Corporate responsibility to protect finite resources	30
Risk Management	ALL	New system and the process for keeping up to date, identifying risks early, methods for getting manager buy-in and for recording and updating actions.	Yes	Corporate responsibility	15
Partnership Governance	ALL	Establishment of all the key partnerships which the City engages with; review of the levels of governance in place and an assessment of the residual risks for service delivery.	Yes	Ensure Council position is protected	20
Data Security / Information Governance	9	Examination of service providers who extract data for manipulation or analysis, controls they have in place over safety of client's data, how they transfer and store data off site. Do key suppliers who hold our data meet any of the recognised standards for IS such as SAS70 (now called ISAE3402)  Also review off site laptop use (data storage, encryption etc)	Yes	Avoid reputation damage and need for Information Commissioner intervention	20
Project Management (including VfM)	ALL	To provide assurance that the Council's projects are managed in accordance with best practice and that VfM is achieved. We will review projects across several portfolios. This will include where appropriate post-implementation reviews in order to evaluate whether benefits have been realised.	Yes	Ensure finite resources are appropriately managed	20
				<b>TOTAL</b>	<b>130</b>

CORPORATE CROSS CUTTING AUDITS					
Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.					
Fire Safety / Property Portfolio	2, 6, 9	Provide assurance that there is a programme in place to ensure that Cambridge City Council owned and managed assets comply with Fire Safety Orders. Verify progress being made in undertaking fire risk assessments. Verify progress being made with respect to flats and corporate buildings.			15
Delegations: Officers / Members	ALL	Review of compliance with officer delegations e.g. financial limits and ensure that there are up-to-date signatory lists are maintained. Review of compliance with member delegations (Link in with pilot scheme for development of responsibilities to Area Committees and ensure that any decision-making powers are appropriately delegated and managed).			15
Service Preparations for Growth	ALL	Review of service preparation for Southern Fringe and North West Cambridge growth (including expansion of services e.g. refuse collection and planning for new community infrastructure)	Yes	Annual review	15
Spreadsheets	9	Examination of a sample of business-critical spreadsheets - accuracy, transfer of data, manipulation of data, passwords, back-ups			12
Health and Safety	ALL	Annual review.	Yes	Annual review	15
Asset Management	1, 2, 3, 8, 9	Review plans to maximise asset efficiency (scope excludes commercial property portfolio)			12
Budget Management	9	Review of cost centre management since the corporate restructure. To provide assurance that budgetary control is accurate and reliable at all levels of reporting from cost centre manager through to the Executive. The audit will consider the impact of the budgetary control on the delivery of planned outputs and excepted outputs.			12
S.106 Developer Contributions	2, 3, 5, 6, 7, 9	Verification that monies due is collected on a timely basis; are spent in accordance with agreements and not refunded due to failure to complete community projects to time.	Yes	Key control testing in important area B/f from 2010-11	12
Business Continuity	ALL	Specific themes to be covered include: <ul style="list-style-type: none"> <li>Service preparation for disruptive weather.</li> <li>Election Management.</li> <li>Impact of Olympics</li> </ul>	Yes	Potential impact on service provision and Council reputation	15
Safeguarding	ALL	Compliance testing in relation to the arrangements adopted for the vetting of perspective employees.			12
				<b>TOTAL</b>	<b>135</b>



<b>CONTRACTS AND PROJECTS</b>					
Dependent on risk, we review a sample of projects and contracts each year to test whether the council's governance arrangements are being followed and that contracts provide value for money					
Orchard Upgrade	9	Post Implementation Review.			12
Clay Farm Programme	ALL	Verification of progress in relation to expected deliverables in relation to the land and community centre.			15
Brandon Court	9	Review of project process against objectives and the preparations for establishing on-going service provision			12
South Cambridgeshire District Council Contract Works	9	Review project in relation to the transfer works back to SCDC			12
Review of Compliance with TUPE	9	Verification of appropriate compliance with TUPE legislation in relation to recent major projects, and establishment of any lessons learnt to take forward.			12
Planned & Preventative Maintenance	2, 9	Review of arrangements to promote effective partnership working between Cambridge City Council and new contractor			12
Responsive Repairs Improvement Plan	2, 9	Review progress against plan objectives and contingency planning in case of failure to meet plan objectives.			12
Leisure Management	9	Review of contract arrangements in place for the delivery of leisure management .			12
EDRMS	9	Review of progress with the project and operational aspects where it has been implemented.	Yes	Corporate project	12
HRA Self Financing	9	Overview of project to look into the Housing Revenue Account being self financing in future years.			15
				<b>TOTAL</b>	<b>126</b>

DEPARTMENT SPECIFIC REVIEWS					
CHIEF EXECUTIVES DEPARTMENT					
Member Allowances	9	Health checks to ensure payments are in accordance with policy and are evidenced.			10
CUSTOMER AND COMMUNITY SERVICES					
Cash Handling	9	Cash / bank arrangements within Sports Development			10
Housing Allocations	2, 6, 9	Review of housing allocations, work to prevent fraudulent allocations including detection of sub-lettings, and review of choice based lettings system			15
Financial Controls	1, 9	Review of financial control arrangements within Arts and Entertainment			10
Leasehold Recharges	2, 9	Review charging system with City Services in relation to leaseholds. Specific focus will be on Grounds Maintenance recharges. This will link into the implications for HRA self financing.			15
ENVIRONMENT					
Local Enterprise Partnership (LEP)	ALL	Maintain an overview on developments in the establishing the LEP and any ongoing impact on service delivery for Cambridge City Council.			15
Trade Waste	5, 7, 9	Review the management information available for cost management, to support bidding for new business, route planning and general business efficiency			15
Compliance with Driving & Vehicle Legislation	7, 9	Examine process for demonstrating compliance (e.g. tachographs, MoTs)			10
Review of Planning Enforcement	6, 9	Examine process for checking compliance with planning consent, issue and monitoring of s36 notices.			15
Crematorium	3, 6, 9	Examine progress with the implementation of Internal Audit recommendations made in 2010/11.			10
Trees	3	Review of processes within the Environment Directorate in relation to management of trees.			10
Markets	9	Testing to provide assurance that all income due is identified, invoiced, collected and recorded accurately and timely. Specific emphasis is on the review debt management procedures and processes for markets.			15

<b>RESOURCES</b>					
External Funding / Grants	ALL	The audit will review the processes in place for <ul style="list-style-type: none"> <li>Bids for external funding are channelled through the appropriate processes;</li> <li>Examine how grants are managed at a corporate level and review processes for monitoring outcomes and funding conditions have been met</li> <li>Procedures are in place for synthesising bids to maximise benefits and minimise potential duplication in project proposals</li> </ul>			12
Insurance	3, 6, 7, 9	Procurement of insurance, management of insurance, and checking of contractors' insurance.			12
ICT Plan	9	Organisation / prioritisation of IT workplan, communication with other services and monitoring / support for non-corporate projects.			12
Procurement Strategy	5, 6, 8, 9	Examine how Procurement is using supplier classification information to amalgamate procurement spend across the Council, and review how procurement savings are being recorded.			12
Contracts (Legal)	ALL	Review of arrangements to ensure robust project support, document retention and prioritisation / externalisation of work.			12
<b>OTHER RESOURCE PROVISIONS (CORPORATE SUPPORT)</b>					
Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require a small amount of time to complete.					
Carry Forward Activities	ALL				41
Follow Up Provision	ALL				30
Fraud / Irregularity Contingency	ALL	Time is included within the plan for undertaking proactive counter fraud-work, together with reactive work where suspected irregularities have been detected.			30
Requested Work Contingency	ALL	Allowance exists to provide flexibility within the audit plan - for time spent on providing risk and control advice to officers, management and members; and ad hoc requests and consultancy work			80
Risk Register	-	Reviewing and monitoring of risks			30
Committee Support	-	Production of reports and attendance at Council committees (Civic Affairs / Standards etc.)			30
<b>TOTAL RESOURCES ALLOCATED</b>					<b>890</b>