
Internal Audit Risk Assessment and Plan

2013/2014

Northampton Borough
Council

Distribution List

Senior Management Team
Heads of Service
Audit Committee

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1. Introduction and Approach

Introduction

This document sets out the internal audit risk assessment and annual plan for Northampton Borough Council.

Approach

A summary of our approach to developing the risk assessment and annual internal audit plan is set out below. A more detailed description can be found in Appendix 2.



Our usual approach is to engage with key stakeholders as part of the planning process and to utilise the existing risk registers to inform our audit plans.

In view of the impending move to Local Government Shared Services (LGSS) this has not been possible this year as engagement with key stakeholders has been difficult due to conflicting demands and pressures and also the risk registers require further work to reflect the changing organisation.

2. Risk Assessment

Audit universe of Northampton Borough Council with risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 2.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
A Cross-cutting						
A.1	Risk Management	5	3	4	●	Every year
A.2	Procurement	5	2	4	●	Every year
A.3	Business Continuity	6	4	4	●	Every year
A.4	Governance	6	4	4	●	Every year
A.5	Treasury Management	5	5	3	●	Every two years
A.6	Budgetary Control	6	5	4	●	Every year
A.7	Insurance claims	3	2	2	●	Every three years
A.8	General Ledger	6	4	4	●	Every year
A.9	Debtors	6	4	4	●	Every year
A.10	Creditors	6	3	4	●	Every year
A.11	Payroll	6	2	5	●	Every year
A.12	Fixed Assets	6	4	4	●	Every year
A.13	Cash and Banking	6	5	4	●	Every year
A.14	Expenses	5	2	4	●	Every year
A.15	Housing Benefits	6	3	4	●	Every year
A.16	Debt Recovery	6	2	5	●	Every year
A.17	Collection Fund	5	4	3	●	Every two years
A.18	Housing Rents	6	4	4	●	Every year
B Departmental Level						
B.1	Finance & Resources					
B.1.1	Finance	6	4	4	●	Every year
B.1.2	Revenues and Benefits	6	3	4	●	Every year
B.2	Business Change					
B.2.1	Human Resources	5	3	4	●	Every year
B.2.2	Corporate Performance and Change	4	3	3	●	Every two years
B.2.3	Communications Team	3	2	2	●	Every three years
B.3	Customer & Cultural Services					

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.3.1	Customer Services	6	4	4	●	Every year
B.3.2	ICT Operations/ Business Development	6	4	4	●	Every year
B.3.3	Culture & Heritage Services	5	3	4	●	Every year
B.3.4	Town Centre Operations	3	3	2	●	Every three years
B.4	Regeneration and Development	4	3	3	●	Every two years
B4.1	Asset Management	4	3	3	●	Every two years
B.5	Public Protection	4	3	3	●	Every two years
B.5.1	Environmental Services	5	3	4	●	Every year
B.5.2	Community Safety	4	3	3	●	Every two years
B.6	Borough Secretary	5	3	4	●	Every year
B.6.1	Democratic and Chief Executive Services	4	2	3	●	Every two years
B.7	Landlord Services	5	2	4	●	Every year
B.8	Strategic Housing	5	2	4	●	Every year
B.9	Planning	5	3	4	●	Every year
B.10	West Northamptonshire Joint Planning Unit	4	3	3	●	Every two years
B.11	Policy and Community Engagement	3	2	2	●	Every three years

Key to frequency of audit work

Audit Requirement Rating	Colour Code	Timescale	Description
6, 5 and 4	●	Every year	A review of processing and monitoring control design and operating effectiveness
3	●	Every two years	A review of the design and operating effectiveness of monitoring controls
2	●	Every three years	A review of the adequacy of breadth of monitoring controls and analytical review of the output of monitoring controls.
1	●	No further work	n/a

3. Internal Audit Plan and Indicative Timeline

Internal Audit Plan and Indicative Timeline

The following table sets out the internal audit work planned for 2013/14.

Ref	Auditable Unit	Indicative number of audit days	2013/14				Comments
			Q1	Q2	Q3	Q4	
A Cross-cutting							
A.1	Risk Management	8			X		Specialist review to cover controls and processes around the risk management framework. Consideration of structures, roles and responsibilities post LGSS with respect to risk management, to ensure that NBC retains an ability to fulfill its governance requirements going forward.
A.2	Business Continuity	10			X		Review was not performed in 12/13. Specialist review to consider business continuity arrangements post LGSS
A.3	Governance	10				X	Review of governance arrangements following move to LGSS
A.4	Corporate Fraud	8			X		Specialist review to consider structures, roles and responsibilities post LGSS with respect to corporate fraud, to ensure that NBC retains an ability to fulfill its governance requirements going forward, fraud risks are effectively managed and reported.
A.2	Procurement	10			X		Procurement review to cover: <ul style="list-style-type: none"> • Tendering • Purchasing • Supplier selection
A.4	Treasury Management	5		X			Treasury management review to cover: <ul style="list-style-type: none"> • Treasury Management Strategy • Monitoring controls over compliance with strategy
A.5	Budgetary Control	8		X			Budgetary Controls review to cover: <ul style="list-style-type: none"> • Budget setting process • Budget monitoring and reporting
A.6	Insurance claims	8			X		Insurance claims review to cover: <ul style="list-style-type: none"> • Policies and procedures • Claims processing • Monitoring and reporting

Ref	Auditable Unit	Indicative number of audit days	2013/14				Comments
			Q1	Q2	Q3	Q4	
A.7	General Ledger	7			X		General Ledger review to cover: <ul style="list-style-type: none"> • Policies and procedures • Journals • Feeder system reconciliations • Suspense accounts • Access to the ledger
A.8	Debtors	7			X		Debtors review to cover: <ul style="list-style-type: none"> • Sundry invoice raising • Subscriptions • Reconciliations
A.9	Creditors	6			X		Creditors review to cover: <ul style="list-style-type: none"> • Purchase order authorization • Invoicing and payment • Reconciliations
A.10	Payroll	6			X		Payroll review to cover: <ul style="list-style-type: none"> • Starters, leavers and amendments • Exception reports • Management information • Reconciliations
A.11	Cash	6			X		Cash and banking review to cover: <ul style="list-style-type: none"> • Security of collection points • Banking arrangements • Allocation of income • Reconciliations • Management information
A.12	Creditors (IBS)	7			X		Creditors review to cover: <ul style="list-style-type: none"> • Purchase order authorization • Invoicing and payment • Reconciliations
A.13	Fixed Assets	8				X	Fixed Assets review to cover: <ul style="list-style-type: none"> • Policies and procedures • Additions / disposals / adjustments • Re-valuations • Depreciation • Reconciliations • Access to the general ledger
A.14	Expenses	5			X		Expenses review to cover: <ul style="list-style-type: none"> • Policies and procedures • Claims processing
A.15	Housing Benefits	8				X	Housing Benefits review to cover: <ul style="list-style-type: none"> • Benefit processing • Payment of benefits
A.16	Debt Recovery	5			X		Debt Recovery review to cover: <ul style="list-style-type: none"> • Adequacy of debt collection, recovery and write-off procedures.
A.17	Collection Fund	7		X			Collection Fund review to cover: <ul style="list-style-type: none"> • Identification of assets • Valuation • Billing

Ref	Auditable Unit	Indicative number of audit days	2013/14				Comments
			Q1	Q2	Q3	Q4	
A.18	Housing Rents	8			X		Housing Rents review to cover: <ul style="list-style-type: none"> • Rent setting and annual increases • Calculation of annual rent debit • Changes to housing stocks • Debt collection, allocation and rebates
Total		147					
B	Departmental Level						
	Human Resources	8				X	<i>Sickness and absence</i> – Processes and controls around recording and monitoring absences from work
	Finance – IT review	10		X			<i>IT review</i> – Specialist review of the general computer controls and workflow arrangements established in Agresso
	Finance – NFI data matching	-					* See note below
	Landlord Services	15		X			<i>Travis Perkins</i> – Specialist review of Travis Perkins contract and new arrangements for e-invoicing
	Strategic Housing	8			X		<i>Housing allocations</i> – Processes and controls around housing allocations under the new procedure.
	Planning	8				X	Planning review to cover: <ul style="list-style-type: none"> • Policies and procedures • Process • Management information
	ICT Operations/ Business Development	14	X				<i>Bring your own devices</i> – Processes and controls around using personal devices for NBC business
	Environmental Services	15		X			Performance monitoring and reporting
	Regeneration and Development	15				X	<i>Regeneration project</i> – Processes and controls around the major regeneration projects and Enterprise Zone
	Asset management	7		X			Asset management review to cover: <ul style="list-style-type: none"> • Strategy • Rationalisation of asset base • Delivery of the strategy • Governance
	Culture and Leisure	8		X			<i>Delapre Park concerts</i> – Processes and controls around the organisation of the Delapre Park concerts
Total		108					
C	Value Enhancement						
C.1	Post LGSS reviews	30	X	X	X	X	Reviews to consider: <ul style="list-style-type: none"> - Monitoring of SLA's and performance metrics - Business as usual operations - HR skill set management - Change management
Total		30					

Ref	Auditable Unit	Indicative number of audit days	2013/14				Comments
			Q1	Q2	Q3	Q4	
D	Project management / other						
D.1	PwC tracker	-					PwC tracker maintenance & support will be billed separately £3,850
D.2	Project management	20	X	X	X	X	Management of the internal audit contract
Total		20					
TOTAL PROPOSED DAYS		305					

* Finance – NFI data matching.

14 days were originally planned to be carried over from the 2012/13 internal audit plan to conduct a review of the National Fraud Institute data match reports for the following areas: creditor history, creditor standing data, insurance claimants, payroll and taxi drivers.

Given the depth of experience that exists in the Council around fraud investigation, we suggest that it will be more efficient for the Council to undertake this work in-house. There is no requirement for it to be performed by internal audit. These days can then be utilised to address areas of risk or other value enhancement work.

Appendix 1: Risk Assessment Criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Impact rating	Assessment rationale
6	Critical impact on operational performance or Critical monetary or financial statement impact or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability.
5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

Likelihood rating	Assessment rationale
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

Appendix 2: Detailed methodology

Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- drawn on our knowledge of Local Government
- met with a number senior management personnel

Step 2 - Define the Audit Universe

In order that our internal audit plan reflects your management and operating structure we have identified the audit universe for Northampton Borough Council made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 - Assess the inherent risk

Our internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise.

The inherent risk assessment is determined by:

- mapping the corporate risks to the auditable units
- our knowledge of your business and its sector
- discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Step 4 - Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- our knowledge of your internal control environment
- information obtained from other assurance providers
- the outcomes of previous internal audit reviews.

Step 5 -Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas of with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

Step 6 -Determine the audit plan

Your risk appetite determines the frequency and scope of internal audit work at each level of audit requirement.

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

Step 7 -Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

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