

Internal Audit Risk Assessment and Plan 2016/17

DRAFT

Northampton Borough
Council

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Distribution List

For action	David Kennedy, Chief Executive Francis Fernandes, Monitoring Officer Glenn Hammons, Section 151 Officer Audit Committee
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1. Introduction and approach

Introduction

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

Approach

The internal audit service will be delivered in accordance with the Internal Audit Charter. A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by Northampton Borough Council's organisational objectives and priorities, and the risks that may prevent Northampton Borough Council from meeting those objectives. A more detailed description of our approach can be found in Appendix 1 and 2.

Step 1
Understand corporate objectives and risks

- Obtain information and utilise sector knowledge to identify corporate level objectives and risks.

Step 2
Define the audit universe

- Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.

Step 3
Assess the inherent risk

- Assess the inherent risk of each auditable unit based on impact and likelihood criteria.

Step 4
Assess the strength of the control environment

- Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.

Step 5
Calculate the audit requirement rating

- Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.

Step 6
Determine the audit plan

- Determine the timing and scope of audit work based on the organisation's risk appetite.

Step 7
Other considerations

- Consider additional audit requirements to those identified from the risk assessment process.

Basis of our plan

The level of agreed resources for the internal audit service for 1 April 2016 to 31 March 2017 is 200 days and £85,000. The plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources and in approving the risk assessment and internal audit plan, the Audit Committee recognises this limitation.

Basis of our annual internal audit conclusion

Internal audit work will be performed in accordance with PwC's Internal Audit methodology which is aligned to the Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000. Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our final individual internal audit reports.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

Other sources of assurance

In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. The other sources of assurance for Northampton Borough Council are as follows:

- Internal audit work performed by the Local Government Shared Service (LGSS);
- External inspections; and
- External audit work.

We do not intend to place reliance upon these other sources of assurance.

Key contacts

Meetings have been held with the following Officers and Members during the process:

David Kennedy, Chief Executive

Glenn Hammons, Section 151 Officer

Francis Fernandes, Monitoring Officer

Julie Seddon, Director of Customers and Communities

Peter Baguley, Head of Planning

Cllr Favell, Audit Committee Chair

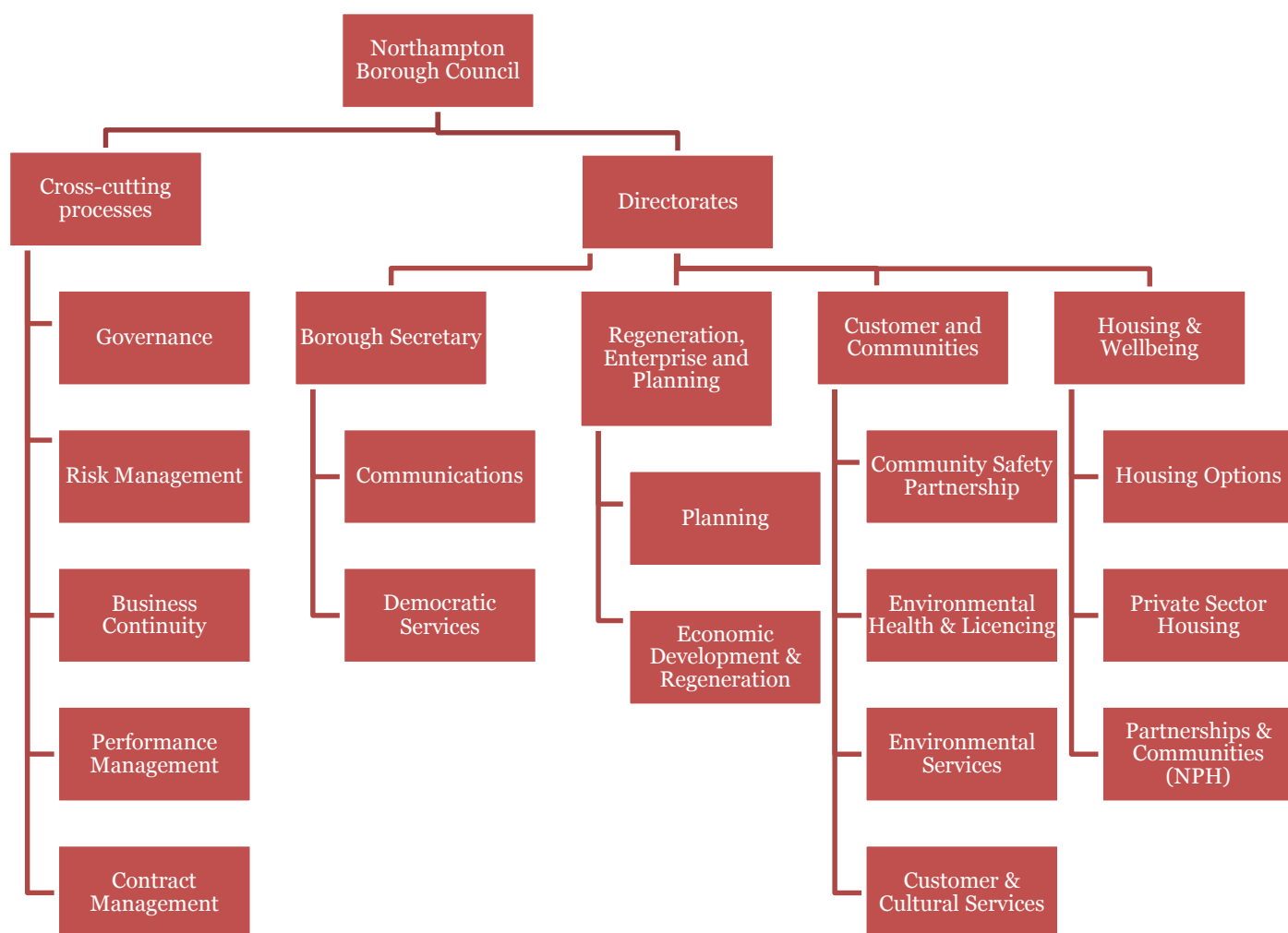
Cllr Golby, Audit Committee member

Cllr Chunga, Audit Committee member

2. Audit universe, corporate objectives and risks

Audit universe

The diagram below represents the high level auditable units within the audit universe of Northampton Borough Council. These units form the basis of the internal audit plan.



The Local Government Shared Service (LGSS) is responsible for delivery of the following services on behalf of Northampton Borough Council:

- HR (including payroll and health and safety)
- ICT
- Finance
- Legal services
- Revenues and Benefits
- Procurement
- Insurance

These areas will be considered as part of the LGSS internal audit risk assessment and plan.

Corporate objectives and risks

The Council's objectives are set out in the Corporate Plan 2016-2020 and summarised in the table below. We consider the corporate priorities when preparing the internal audit plan.

<i>Objective</i>	<i>Risk(s) to achievement of objective</i>
CP1 – Northampton Alive	<p>The Council is in the process of revising the risk management framework and updating the strategic risk register in line with the Corporate priorities for 2016-2020.</p> <p>Our internal audit plan will support this process and is flexible to ensure work is focused on areas of risk and/or priority.</p>
CP2 – Safer communities	
CP3 – Housing for everyone	
CP4 – Protecting our environment	
CP5 – Love Northampton	
CP6 – Working hard and spending your money wisely	

3. Risk assessment

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 1 and 2. The results are summarised in the table below. The Council is currently revising its strategic and corporate risk register. We will revisit this risk assessment to ensure it reflects the Council's risks and our planned response remains appropriate.

Ref	Auditable Unit	Corporate Objectives	Inherent Risk Rating 1=low 6=high	Control Environment Indicator 6 = strong 1= weak	Audit Requirement Rating	Colour code	Frequency
A	Cross Cutting						
	Governance	CP6	6	3	5	R	Annual
	Risk Management	CP6	6	3	5	R	Annual
	Business Continuity	CP6	6	3	5	R	Annual
	Performance Management	CP6	6	4	4	R	Annual
	Contract Management	CP6	6	3	5	R	Annual
B	Regeneration, Enterprise and Planning						
	Economic Development & Regeneration	CP1, CP5	4	3	3	A	2 years
	Planning	CP3, CP5	4	3	3	A	2 years
C	Borough Secretary						
	Communications	CP6	3	3	2	Y	3 years
	Democratic & Members Services	CP6	3	4	n/a	n/a	n/a
D	Customers and Communities						
	Customer & Cultural Services	CP1, CP2, CP3, CP5	4	3	3	A	2 years
	Community Safety Partnership	CP2	4	3	3	A	2 years
	Environmental Health & Licencing	CP2, CP4	4	3	3	A	2 years
	Environmental Services	CP4	5	3	4	R	Annual
E	Housing and Wellbeing						
	Housing Options	CP3	4	3	3	A	2 years
	Private Sector Housing	CP3	5	3	4	R	Annual
	Partnerships & Communities	CP2, CP5	4	3	3	A	2 years

Key to frequency of audit work

Audit Requirement Rating	Frequency – PwC standard approach	Colour Code
6, 5, 4	Annual	R●
3	Every two years	A●
2	Every three years	Y●
1	No further work	G●

4. Annual internal audit plan

Annual plan and indicative timeline

The following table sets out on a high level the internal audit work planned for 1 April 2016 to 31 March 2017. This includes internal audit work in the auditable units requiring annual review in accordance with our risk assessment process. The audit plan will be reviewed following the update of the Council's risk management framework to ensure it remains appropriate and reflect any changes in the risk assessment.

Ref	Auditable Unit	Indicative audit days	Q	Comments	Responsible
A	Cross-cutting Processes				
	Contract Management: LGSS Review - Phase 2 (TBC)	20	Q1-2	A non assurance review to analyse the actual resources in place within LGSS to deliver the contracted services, comparing that to the level of charge and the Council's understanding of the services being received	
	Risk management	10	Q1-2	Continued support in the development of a revised risk management framework and update to the strategic risk registers	
	Business Continuity	10	Q3	Review of business continuity arrangements	
	Governance: Corporate Policy	10	Q3	Review of processes for policy update and ensuring officers are aware of and operating in compliance with current policies	
	Performance Management	10	Q3	Review of performance monitoring and reporting arrangements	
	Northampton Town Football Club	10	Q1	Conclusion of the review examining the internal arrangements within the Council for managing the Northampton Town Football Club loan and providing lessons learnt	
	Total cross-cutting	70			
B	Regeneration, Enterprise and Planning				
	Economic Development & Regeneration	10	Q4	Scope of work to be determined	
	Planning	10	Q3	Scope of work to be determined	
C	Borough Secretary				
	Directorate Governance: Borough Secretary	10	Q2	Review the controls in place to ensure the Council's established processes for governance and financial accountability are operating consistently across the directorate and are suitably robust to achieve the Council's objectives.	

Ref	Auditable Unit	Indicative audit days	Q	Comments	Responsible
D	Customers and Communities				
	Environmental Health & Licencing	10	Q3	Scope of work to be determined	
	Environmental Services	10	Q3	Scope of work to be determined	
	Customer & Cultural Services	10	Q3	Scope of work to be determined	
E	Housing and Wellbeing				
	Housing Options	10	Q2	Scope of work to be determined	
	Private Sector Housing	10	Q2	Review of the new licencing regime and processes and controls to ensure it is operating effectively	
	Partnerships and Communities	10	Q3	Northampton Partnership Homes – review of the overall governance arrangements and current practices to support effective partnership arrangements	
	Directorate audit days	90			
F	Project Management				
	Internal audit management	20	Q1-Q4	Including attendance at Audit Committees and Management Board meetings, and liaison with external audit.	
	Contingency	20	Q1-Q4	To allocate to reviews above once scope of work is determined and provide additional support to issues that may arise in the year	
	Total	40			
	Total days	200			

Key performance indicators

Appendix 3 sets out the proposed Key Performance Indicators for internal audit. Performance against these indicators will be reported annually to the Audit Committee.

Appendix 1: Detailed methodology

Step 1 - Understand corporate objectives and risks

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

- Reviewed your corporate plan and organisational structure
- Drawn on our knowledge of the local government sector; and
- Met with a number senior management.

Step 2 - Define the Audit Universe

In order that the 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

The 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 criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and its sector; and
- 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; and
- The outcomes of previous internal audits

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 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 of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

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.

Appendix 2: 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.

<i>Impact rating</i>	<i>Assessment rationale</i>
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

<i>Likelihood rating</i>	<i>Assessment rationale</i>
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 3: Key performance indicators

Key performance indicators

To ensure your internal audit service is accountable to the Audit Committee and management, we have proposed the following key performance indicators.

<i>KPI</i>	<i>Target</i>	<i>Comments</i>
Infrastructure		
Audits budgeted v actual	+/- 10 plan days	We expect to deliver the annual plan with tolerance of 10 days with the agreement of management
Planning		
% of audits with Terms of Reference	100%	Terms of reference will be agreed with the Audit Sponsor before fieldwork commences
Fieldwork		
% of audits with an exit meeting	100%	Exit meetings will be held with the Audit Sponsor once fieldwork has been completed for all reviews undertaken
Reporting		
Draft reports issued promptly	100%	Draft reports will be issued within three weeks following fieldwork completion
Attendance at Audit Committee	100%	
Relationships		
Overall client satisfaction score	9/10	



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