

Internal Audit Risk Assessment and Plan 2017/18

Northampton Borough
Council

June 2017

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Distribution List

For action	Audit Committee
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This document has been prepared only for Northampton Borough Council and solely for the purpose and on the terms agreed with Northampton Borough Council in our engagement letter dated 19 June 2017.

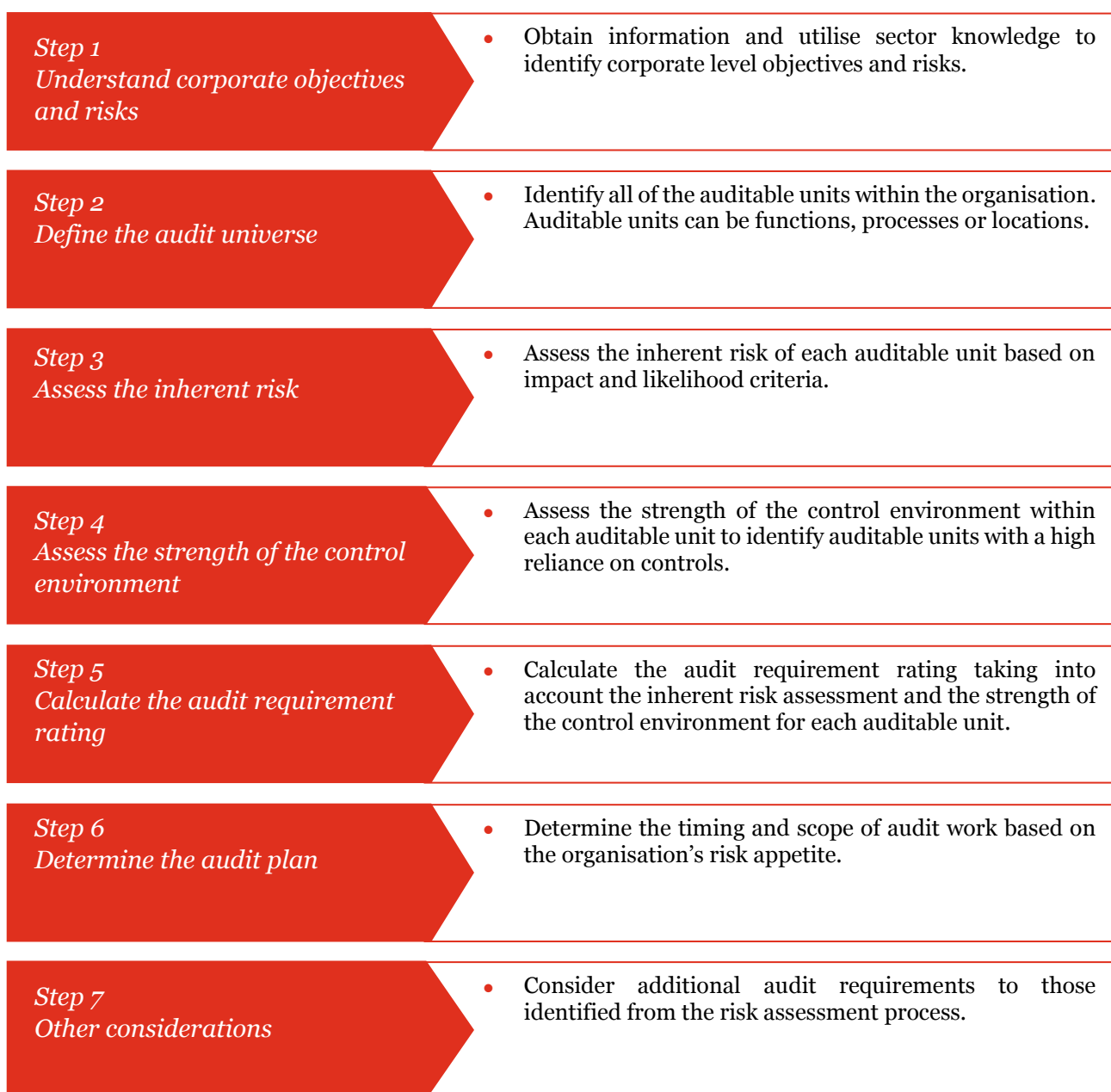
1. Introduction and approach

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.



Basis of our plan

In order to carry out the level of work that our risk assessment indicates is appropriate, we estimate that the resource requirement for Northampton Borough Council's internal audit service is in excess of the available budget in order to evaluate the effectiveness of risk management, control and governance processes. The level of agreed resources for the internal audit service for the period 1 April 2017 to 31 March 2018 is 200 days and £89,000, and therefore 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. These are summarised below.

The other sources of assurance for Northampton Borough Council are as follows:

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

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

Our engagement contract includes the option for a call off arrangement. Such pieces of work will provide assurance that certain aspects of the change programme as being managed effectively. The scope, nature and extent of the support will be agreed with management as and when required but will focus on your risk management, contract management and change projects predominantly.

Key contacts

Meetings have been held with the following key personnel during the planning process:

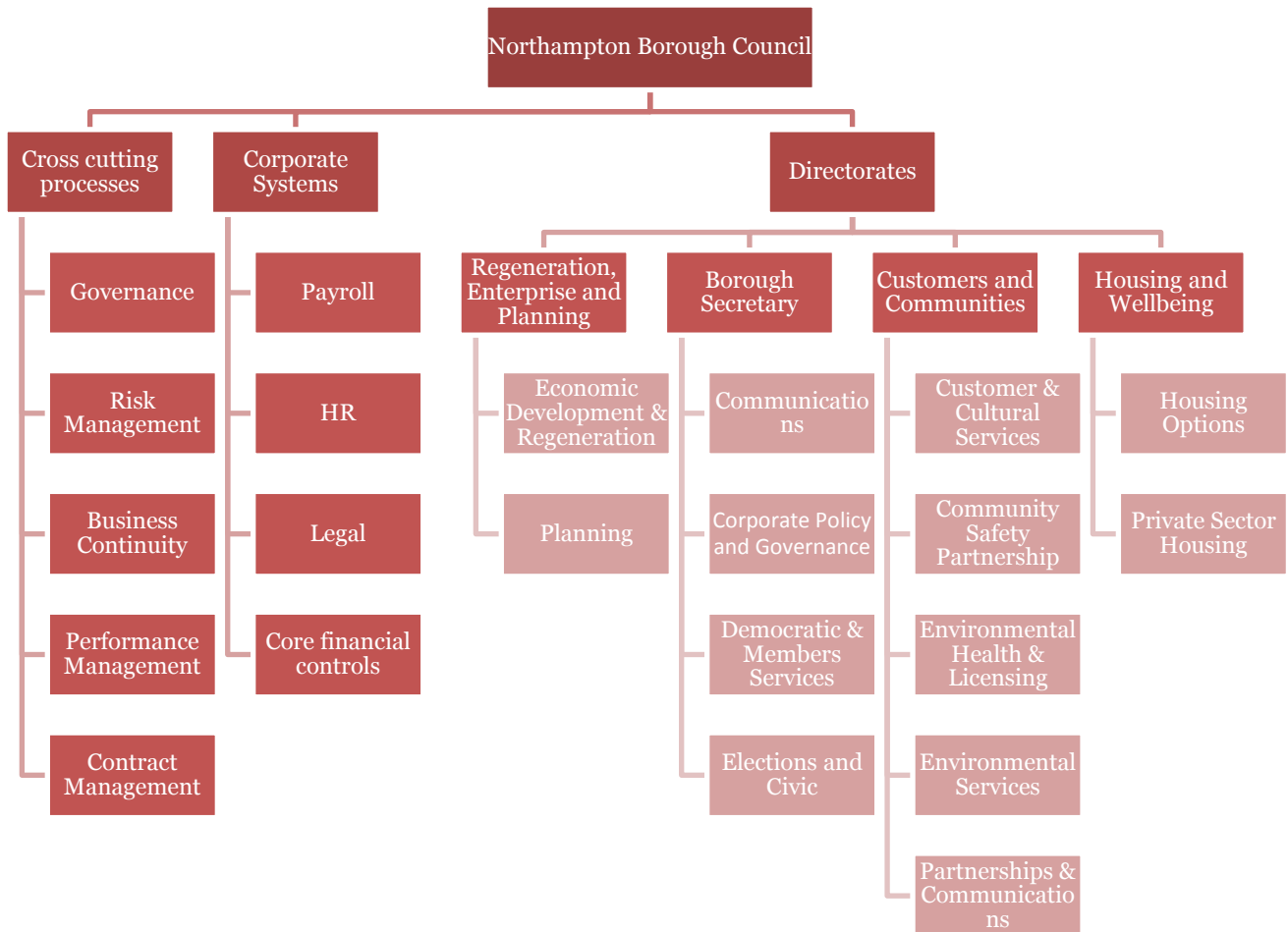
- David Kennedy, Chief Executive
- Francis Fernandes, Monitoring Officer
- Glenn Hammons, Section 151 Officer
- Cllr Jonathan Nunn, Leader of the Council
- Cllr Mark Markham, Audit Committee Chair (former)

- Management Board
- KPMG, External Audit
- LGSS Internal Audit

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:

- ICT
- Finance
- 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

Corporate level objectives and risks have been determined by Northampton Borough Council. These are recorded in the table below and have been considered when preparing the internal audit plan.

<i>Objective</i>	<i>Risk(s) to achievement of objective</i>	<i>Cross reference to Internal Audit Plan (see Section 4)</i>
Northampton Alive	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. Our internal audit plan will support this process and is flexible to ensure work is focused on areas of risk and/or priority.	CP1
Invest in safer, cleaner neighbourhoods		CP2
Celebrating our heritage and culture		CP3
Making every £ go further		CP4
Better homes for the future		CP5
Creating empowered communities		CP6
Promoting health and wellbeing		CP7
Responding to your needs		CP8

In response to the Northampton Town Football Club report officers issued a Governance Action Plan. This is focused on improving current processes and establishing a strong control environment. The Governance Action Plan focuses on the following categories:

- Risk management;
- Decision governance;
- Project and programme management;
- Recommendation tracking; and
- Financial governance.

In the prior year, we have worked closely with management to assess the new Governance Board and plans arising from the Governance Action Plan. We have developed our plan to support the Council in implementing their plans and providing the Audit Committee with adequate assurance.

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.

Ref	Auditable Unit	Corporate Objectives	Inherent Risk Rating 1=low, 6=high	Control Environment Indicator 6 = strong, 1= weak	Audit Requirement Rating	Colour code (RAG)	Frequency – PwC standard approach
A	Cross cutting processes						
A.1	Governance	CP1 - 6	6	1	6	R	Annual
A.2	Risk Management		6	2	5	A	Annual
A.3	Business Continuity		5	2	4	A	Annual
A.4	Performance Management		5	2	4	A	Annual
A.5	Contract Management		4	2	3	A	Every two years
B	Corporate systems						
B.1	Payroll	CP4	4	3	3	A	Every two years
B.2	HR	CP4, CP6	4	3	3	A	Every two years
B.3	Legal	CP4	4	3	3	A	Every two years
B.4	Core financial controls	CP4	6	3	5	A	Annual
C	Regeneration, Enterprise and Planning						
C.1	Economic Development & Regeneration	CP1, CP2, CP3, CP4, CP8	6	2	5	A	Annual
C.2	Planning	CP1, CP2, CP4, CP5, CP8	4	4	2	A	Every three years
D	Borough Secretary						
D.1	Communications	CP6, CP8	3	3	2	A	Every three years
D.2	Corporate Policy and Governance	CP6, CP8	6	2	5	A	Annual
D.3	Democratic & Members Services	CP6, CP8	3	4	n/a	n/a	n/a
D.4	Elections & Civic	CP6, CP8	2	3	n/a	n/a	n/a
E	Customers and Communities						
E.1	Customer & Cultural Services	CP1, CP3, CP4, CP6, CP8	5	5	3	A	Every two years

E.2	Community Safety Partnership	CP2, CP6, CP8	CP4, CP7,	4	4	2	A	Every three years
E.3	Environmental Health & Licensing	CP2, CP7, CP8	CP4,	4	3	3	A	Every two years
E.4	Environmental Services	CP2, CP7, CP8	CP4,	6	3	5	A	Annual
E.5	Partnerships & Communications	CP1, CP8	CP4,	6	3	5	A	Annual
F	Housing and Wellbeing							
F.1	Housing Options	CP5, CP8	CP6,	6	3	5	A	Annual
F.2	Private Sector Housing	CP5, CP8	CP6,	6	3	5	A	Annual

Key to frequency of audit work

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

4. Annual plan and internal audit performance

Annual plan and indicative timeline

The following table sets out the internal audit work planned for 1 April 2017 to 31 March 2018, together with indicative start dates for each audit.

Ref	Auditable Unit	Indicative number of total audit days	Q	Audit days per Q	Comments	Responsible
A	Governance action plan					
A.1	Governance and risk management	50	Q1-2	20	Support the management team in aligning its strategy and risks and implementing the refreshed risk management strategy and effective governance model by holding a workshop to ensure all relevant risks are identified and critically challenged	Governance and Risk Manager
			Q3-4	15	Support the management team in mapping the identified risks against current sources of assurance and ensuring that adequate coverage is obtained over key risks	
			Q3-4	5	Perform a benchmarking exercise to assess improvements made and current performance against peers	
A.2	Organisational change	40	Q2	10	Review the Council's vision and strategy to ensure it aligns with the current Council structure. We will obtain copies of the Council's plans and critically review these to assess whether they are established and adequately supported within the Council	Borough Secretary
			Q3-4	30	Assess the re-integration of HR, legal and payroll services and ensure controls are operating effectively. We will hold a workshop to identify the scope of responsibilities within each department and review that adequate controls have been developed and implemented to mitigate identified risks	
A.3	Financial governance	50	Q2	5	Hold a workshop to identify key controls across the Council and identify frequency and scope of responsibility to develop a testing regime which will be applied on a regular frequency	Chief Finance Officer
			Q2-4	30	Perform continuous auditing model for identified key controls across the organisation on a quarterly basis to provide ongoing assurance.	

			Q2-4	15	Deep dive value add assurance reviews and departmental financial process, focusing on: <ul style="list-style-type: none"> • budgetary control • purchase to pay • procurement 	
A.4	Tracking recommendations and follow up	20	Q2	8	Review the closed recommendations and ensure the classification as complete is appropriate	Borough Secretary
			Q2	2	Support the management team in establishing a reporting routine, including an appropriate summary report to be communicated at each Audit Committee	
			Q2-4	10	Implement a regular routine of checking implementation and removing completed items, including reporting to the Audit Committee each quarter	
B	Other areas					
B.1	Culture	30	Q2-4	23	Undertake a survey / interviews with key personnel focusing on the following areas: <ul style="list-style-type: none"> – Integrity and ethical values – Commitment to competence – Audit Committee – Management’s philosophy and operating style – Organisational structure – Assignment of authority and responsibility – Human resources policies and procedures Provide a summary report detailing how the findings link to the planned Cultural Change Strategy and the Council’s overall strategy and vision	HR Manager
			Q3	7	Review of the changes made to the Whistleblowing process	
C	Project Management					
C.1	IA management time	10	Q1-Q4	10	Including: <ul style="list-style-type: none"> • liaison with external audit • attendance at Audit Committees and a report to each Audit Committee providing an update on the implementation of the Council’s governance action plan • attendance at management meetings, where requested 	NA
	Total days	200				

D Additional services						
D.1	Call off arrangement	As required	Q1-Q4		Additional reviews considered relevant to support the Council, specifically around: <ul style="list-style-type: none"> • Contract management • Environmental services contract reprovision • Significant regeneration projects, including the Vulcan Works 	NA

The following areas are those we think require attention following our risk assessment exercise as defined in section 3. However, they are not currently included in the internal audit plan:

- Review the business continuity arrangements in place to support the Council
- Deep dive assurance reviews around and departmental financial process:
 - performance management
 - private sector housing
 - partnerships
 - customer and cultural services

Key performance indicators

Appendix 4 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 and members.

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.

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)

<i>Likelihood rating</i>	<i>Assessment rationale</i>
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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