
Northampton Borough Council Draft Internal Audit Risk Assessment and Plan 2012/2013

Internal audit risk
assessment and plan

Distribution List

Senior Management Team
Heads of Service
Audit Committee

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1. Introduction and Approach

Introduction

This Internal Audit Risk Assessment and Plan outlines our proposed audit work for the year, based on our analysis of the key risks facing Northampton Borough Council.

Approach

Our approach to developing the audit plan is set out below.

Defining the Audit Universe

Dividing Northampton Borough Council into auditable units

We have identified the auditable units within Northampton Borough Council based on the organisational structure.

Any processes which run across a number of different departments within Northampton Borough Council and which can be audited once have been pulled out as a separate auditable unit under cross-cutting reviews in the audit universe, which is shown in full in Section 2.

Corporate level priorities and risks as defined in the corporate plan and risk register have been mapped to the auditable units. They are set out in Appendix 1.

Risk Assessment

Assessing the risk profile inherent within each auditable unit and adjusting for the strength of the control environment

Each auditable unit within the audit universe has been assessed for the potential impact and likelihood of inherent risks.

We have also rated the strength of the control environment within each auditable unit, taking into consideration:

- The strength of the first line of defence:
 - The extent of review by other assurance providers
 - The adequacy of risk assessment and management controls.
- The strength of the second line of defence (e.g. operational risk, health and safety, compliance):
 - Scope of qualitative and quantitative assessment
 - Issues identified.

The audit requirement rating has then been calculated from the inherent risk rating and control environment indicator; this ensures that audit effort is directed to areas of high risk and areas with high reliance on controls operating effectively.

The full results of our risk assessment are set out in Section 2; Section 3 sets out our detailed risk assessment criteria.

Audit planning

Identifying the specific reviews to be undertaken by internal audit

To develop the audit plan, the frequency of audit work has been determined for each auditable unit based on the audit requirement rating.

For auditable units which are not reviewed every year, the appropriate proportion of units are included in the plan each year (i.e. half of all auditable units to be covered every two years, a third of all auditable units to be

covered every three years etc). The specific auditable units to be covered each year are determined based on the length of time since audit work was last undertaken in each area and in consultation with management.

In some cases the majority of the risk within an auditable unit will contained within a specific sub-process. In this case the work required has been adjusted to take this into account: the higher risk element has been captured as an **exception**, and will be included at a higher frequency than the remainder of the auditable unit.

Details of the correlation between the audit requirement rating and the of audit work are available in Section 2. Section 4 sets out our internal audit plan for 2012/13 with an indicative timeline.

Value Enhancement reviews

Identifying process improvement reviews to be undertaken by internal audit

In addition to the audit work defined through the risk assessment process described above, we undertake a programme of Value Enhancement reviews designed to assist management in improving existing processes. The Value Enhancement programme for 2012/13 has been identified through discussions with management and is included in the Internal Audit Plan set out in Section 4.

Key contacts

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

David Kennedy
Chief Executive

Fyran Rogers
Head of Strategic Housing

Sue Bridge
Head of Planning

Robin Bates
Head of Revenues and Benefits

Steve Elsey
Head of Public Protection

David Bailey
Director of Planning and Regeneration

Dale Robertson
Head of Corporate Performance and Change

Lesley Wearing
Director of Housing

Christine Ansell
Head of Landlord Services

Julie Seddon
Director of Environment and Culture

Thomas Hall
Head of Policy and Community Engagement

Bill Lewis
Head of Finance

Catherine Wilson
Head of Revenues and Benefits

Fyranis Fernandes
Borough Solicitor

Chris Cavanagh
Head of Regeneration and Development

Will Brown
Culture and Heritage Services Manager

Derrick Simpson
Town Centre Manager

2. Risk Assessment

Audit universe of Northampton Borough Council with risk assessment results

Ref	Auditable Unit	Corporate objectives	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
A Cross-cutting							
A.1	Risk Management	CP 8 Providing quality services	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	5	●	Every year
A.11	Payroll		6	4	4	●	Every year
A.12	Fixed Assets		6	4	4	●	Every year
A.13	Cash and Banking		6	5	4	●	Every year
A.14	Banking Expenses		4	3	3	●	Every two years
A.15	Housing Benefits		6	3	5	●	Every year
A.16	Debt Recovery		6	3	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	CP 8 Providing quality services	6	4	4	●	Every year
B.2	Human Resources	CP 8 Providing quality services	5	3	4	●	Every year

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Ref	Auditable Unit	Corporate objectives	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.3	Revenues and Benefits	CP 8 Providing quality services CP 1 Supporting you when you need it	6	3	5	●	Every year
B.4	Customer Services and ICT	CP 8 Providing quality services CP 9 Satisfying our customers	6	4	4	●	Every year
B.5	Landlord Services	CP 2 Ensuring homes are available for local people CP 2 Ensuring homes are available for local people	5	2	4	●	Every year
B.6	Strategic Housing	CP 2 Ensuring homes are available for local people	5	2	4	●	Every year
B.7	Planning	CP 6 Driving the development of a confident, ambitious and successful Northampton	4	3	3	●	Every two years
B.8	Regeneration and Development	CP 6 Driving the development of a confident, ambitious and successful Northampton	4	3	3	●	Every two years
B.9	Asset Management	CP 8 Providing quality services	4	3	3	●	Every two years
B.10	West Northampton hire JPU	CP 8 Providing quality services CP 9 Satisfying our customers	4	3	3	●	Every two years
B.11	Public Protection	CP 4 Helping create a clean, green and safe Northampton	4	3	3	●	Every two years
B.12	Environmental Services partnership unit	CP 4 Helping create a clean, green and safe Northampton	5	3	4	●	Every year
B.13	Cultural services	CP 3 Encouraging healthy, active, green living CP 5 Delivering inviting and enjoyable open spaces	5	3	4	●	Every year
B.14	Policy and Community Engagement	CP 1 Supporting you when you need it CP 7 Being a responsive Council	3	2	2	●	Every three years

Ref	Auditable Unit	Corporate objectives	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.15	Corporate Performance and Change	CP 8 Providing quality services	4	3	3	●	Every two years
B.16	Communications Team	CP 8 Providing quality services	3	2	2	●	Every three years
		CP9 Satisfying our customers					
B.17	Democratic and Chief Executive Services	CP 8 Providing quality services	4	2	3	●	Every two years
B.18	Community Safety Partnership	CP 4 Helping create a clean, green and safe Northampton	4	3	3	●	Every two years
B.19	Borough Solicitor Function	CP 8 Providing quality services	4	3	3	●	Every two years
B.20	Town Centre Operations	CP 8 Providing quality services	3	3	2	●	Every three years

Key to frequency of audit work

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

See Section 1 for a description of the risk assessment methodology used to determine the Audit Requirement Rating. Section 3 sets out the detailed risk assessment criteria.

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

Inherent risk rating

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

Determination of Control Environment Indicator

Our assessment of the control environment is known as the **Control Environment Indicator**.

The control environment is assessed on a scale determined by the inherent risk rating for each auditable unit. The control environment indicator cannot be greater than the inherent risk rating; therefore a rating of 1 indicates that there are minimal controls in place, and a rating equal to the inherent risk rating indicates that the control environment is sufficiently strong to mitigate all inherent risks within the auditable unit.

Determination of Audit Requirement Rating

The **Audit Requirement Rating** is calculated based upon the inherent risk and control environment indicator so that audit effort is directed to areas of high risk and high reliance on controls operating effectively.

Audit Requirement Rating:

Inherent Risk Rating	Control environment 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

4. Internal Audit Plan and Indicative Timeline

Internal Audit Plan and Indicative Timeline

The following table sets out the internal audit work planned for 2012/13

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A	Cross-cutting						
A.1	Risk Management and Business Continuity	5	X				<ul style="list-style-type: none"> Risk Management and Business Continuity review to cover: Risk management framework Business continuity diagnostic tool assessment
A.2	Council Tax	6	X				<ul style="list-style-type: none"> All properties have been identified and appropriate charges made Adequate control over monitoring and collection of charge Any dispensations are appropriately evidenced and authorised Arrears management Authorisation of write offs Process for amending bandings
A.3	NNDR	10	X				<ul style="list-style-type: none"> Identification and valuation of properties Reliefs and exceptions are appropriately calculated and applied Billing & collection Recovery and enforcement Accounting for NNDR Compliance with legislation Apportionment of costs for the Consortia and resource management
A.4	Core Financial Systems Review	40		X			<ul style="list-style-type: none"> General ledger Debtors Agresso creditors (including purchasing catalogues processes) Payroll Cash and bank
A.5	Budgetary Control	8			X		<ul style="list-style-type: none"> Budgetary Controls review to cover: Budget setting process Budget monitoring and reporting

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A.6	Creditors (IBS)	8			X		<p>Creditors review to cover:</p> <ul style="list-style-type: none"> • Accuracy and review of output from the creditors system. • Orders are raised in respect of all goods required. • Payments are accurately made for goods received and appropriate authorisation has taken place. • Security over access and data
A.7	Fixed Assets	6				X	<p>Fixed Assets review to cover:</p> <ul style="list-style-type: none"> • Acquisitions identified • Treatment of surplus assets • Disposals/transfers • Capital assets are completely and accurately recorded • Capital asset verification • Accounting for fixed assets and associated capital charges / revaluations • Fixed assets are appropriately disclosed • System is secure against unauthorised access and data loss
A.8	Housing Benefits	8		X			<p>Housing Benefits review to cover:</p> <ul style="list-style-type: none"> • Benefit processing • Payment of benefits
A.9	Housing rents	6			X		<p>Housing Rents review to cover:</p> <ul style="list-style-type: none"> • Key controls • Follow up of prior year findings
A.10	Debt Recovery	10				X	<p>Debt Recovery review to cover:</p> <ul style="list-style-type: none"> • Adequacy of debt collection, recovery and write-off procedures.
Total		107					
B Departmental							
B.1	Human Resources	8		X			<p>Potentially violent persons - Arrangements for managing the potentially violent persons register</p>
B.2	Customer Services and ICT	15			X		<p>IT reviews – Including IT general controls and IT security</p>
B.3	Landlord Services	15				X	<p>Voids and repairs process – Follow up of voids 2011/12 and review of repairs and maintenance processes/policies including gas safety checks/asbestos arrangements</p>

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
B.4	Strategic Housing	5			X		Decent Homes – Follow up of contract management arrangements
		8				X	Accounting for Grant Income - Review of processes to ensure the Authority adheres to grant conditions for non-subsidy grant income
		8		X			Housing allocations – processes around allocation of council houses
B.5	Communications Team	5		X			E-forms – data management arrangements for electronic forms
B.6	Policy and Community engagement	8	X				Equalities – Review of Departmental equality impact assessments, required by Equalities Act 2010
B.7	Asset Management	8		X			Asset management review to cover: Time recording system Disposals Delivery of corporate programme
B.8	Environmental Services	5			X		Environmental Services Contract – Follow Up of contract management arrangements
B.9	Cultural Services	5			X		Leisure Trust – Follow Up of contract management arrangements
B.9	Cultural Services	8	X				Museums Security – Review of security arrangements in museums including follow up of 2010/11 findings
B.10	Corporate Performance and Change	8			X		Data quality – Processes for managing data quality and reporting performance
B.11	Democratic and Chief Executive Services	8	X				Community Asset Transfer Scheme –Risk management arrangements and processes for selecting appropriate candidates
B.12	Borough Solicitor Function	5			X		Corporate Fraud Arrangements – review of corporate fraud arrangements
Total		119					
VE	Value Enhancement						
VE.1	Governance and controls workshop	2		X			Workshop with SMT to discuss governance and controls
VE.2	Audit Committee Effectiveness Training	2		X			Training for Audit Committee
VE.3	Anti-fraud awareness training	4			X		For Members and Officers
VE.4	Data Matching/CAATS	20			X		Data matching for anti-fraud purposes
VE.5	Support on HR project	12	X	X	X	X	Critical friend reviews at different stages of the project
VE.6	Conflicts of Interest	5		X			Arrangements for managing conflicts of interest/member's declarations
Total		45					

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Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
PM	Project Management/Other						
PM.2	Teamcentral	10	X	X	X	X	Teamcentral maintenance
PM.3	Audit Management	18	X	X	X	X	Management of the internal audit contract
Total		28					
TOTAL PROPOSED DAYS		299					

The table above shows indicative quarters for the relevant audits.

We apply an integrated internal audit approach such that audits of businesses and functions include both manual and automated controls.

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Appendix 1: Corporate Objectives and Risks

These corporate level priorities and risks have been determined by Northampton Borough Council as documented in the Corporate Plan and Corporate Risk Register.

Priority	Cross reference to Internal Audit Plan (see Section 4)
CP 1 Supporting you when you need it	A.9 Housing benefit
CP 2 Ensuring homes are available for local people	B.3 Landlord Services reviews B.4 Strategic Housing reviews
CP 3 Encouraging healthy, active, green living	B.9 Leisure Trust contract follow up
CP 4 Helping create a clean, green and safe Northampton	B.1 Potentially violent persons register B.8 Environmental services contract review follow up
CP 5 Delivering inviting and enjoyable open spaces	B.8 Environmental services contract review follow up
CP 6 Driving the development of a confident, ambitious and successful Northampton	B.7 Asset management B.11 Community asset transfer scheme
CP 7 Being a responsive Council	B.4 Housing allocations B.6 Equalities Act
CP 8 Providing quality services	All reviews in section A – Cross cutting B.10 Corporate performance and Change reviews
CP9 Satisfying our customers	A.2 NNDR A.3 Council tax A.9 Housing benefits A.10 Housing rents B.3 Voids

Risk

Cross reference to Internal Audit Plan (see Section 4)

Failure to deliver a balanced and deliverable budget.

A.4 Core financial systems
A.5 Budgetary controls

The organisation fails to deliver its responsibilities.

B.10 Corporate Performance and Change reviews

The plans for improving Northampton are not delivered.

B.11 Community Asset Transfer Scheme

Failure of governance procedures and processes to facilitate the direct desired outcomes

VE.1 Governance workshop
A.1 Risk Management

The Council fails to exceed its goals and aims and make the best use of resources (assets, people, technology).

B.1 Human Resources reviews
B.2 Customer Services and ICT reviews
B.5 E-forms
B.7 Asset Management

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