

Internal Audit Risk Assessment and Plan 2015/16

DRAFT

Northampton Borough
Council

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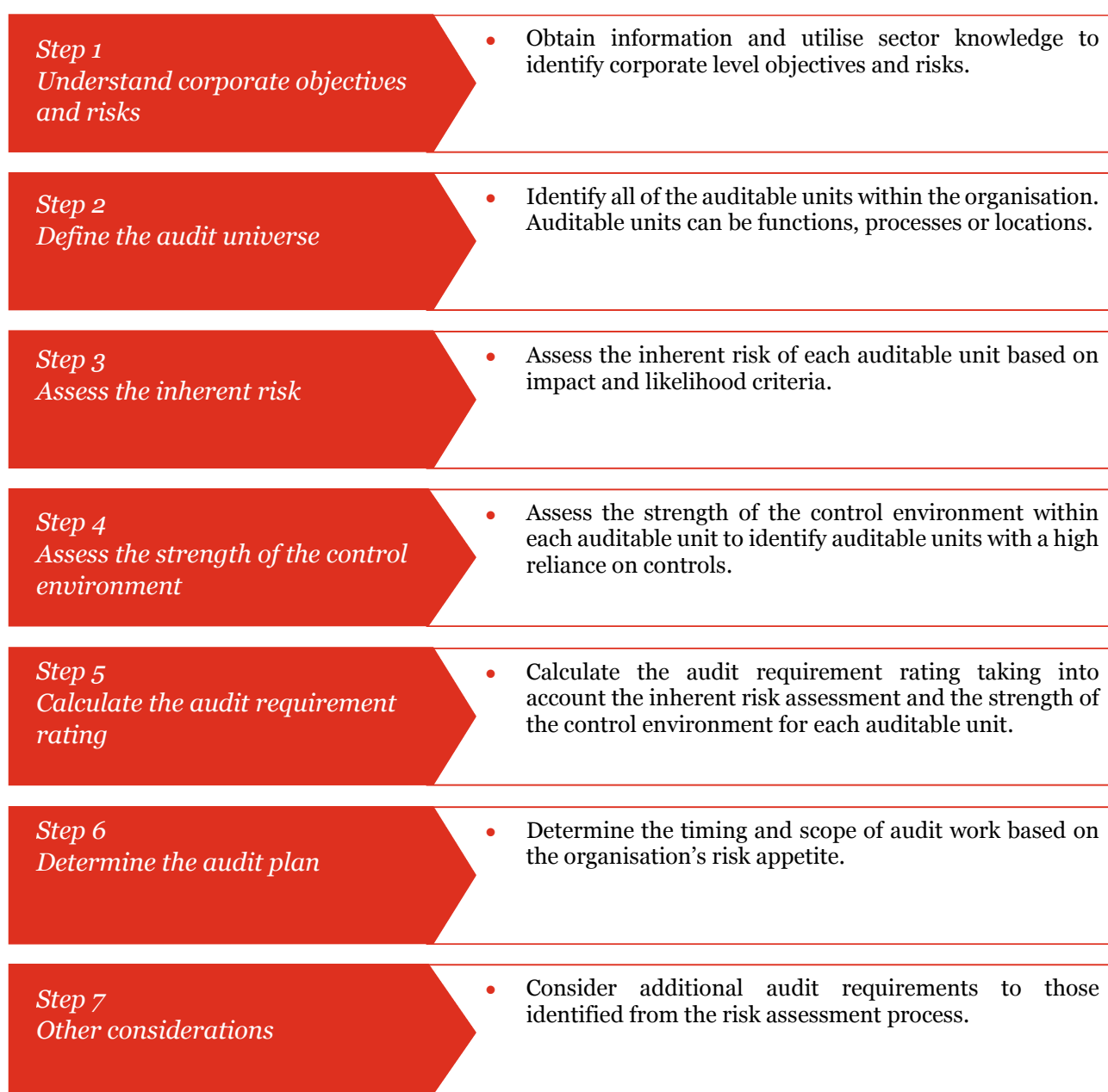
1. Introduction and approach

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.



Basis of our plan

The level of agreed resources for the internal audit service for 1 April 2015 to 31 March 2016 is 200 days and £81,000. 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.

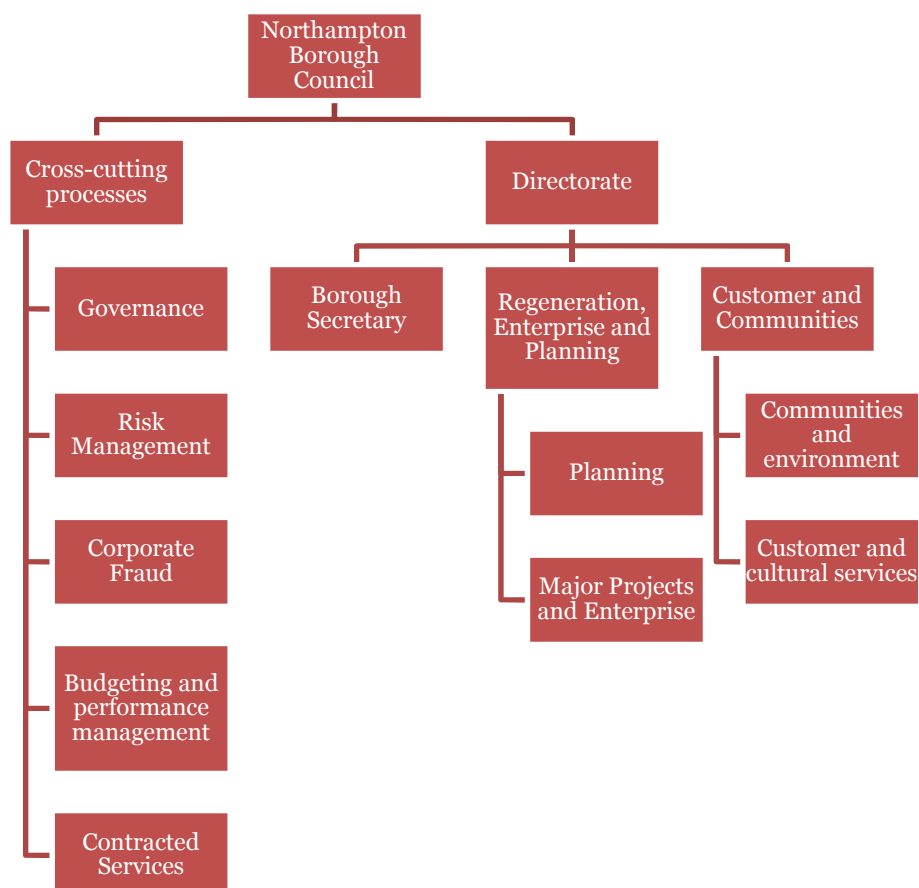
Key contacts

Meetings have been held with the Section 151 Officer and Monitoring Officer during the planning process.

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

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>
Putting Northampton back on track	<ol style="list-style-type: none"> 1. The plans for improving the economic prosperity of Northampton are not delivered. 2. Failure to deliver a balanced and deliverable budget. 3. The Council fails to deliver key priorities and make the best use of resources (assets, people, and technology). 4. The organisation fails to meet customer needs. 5. Viability/capability to support or resource service demand.
Invest in safer, cleaner neighbourhoods	
Celebrating our heritage and culture	
Making every £ go further	
Better homes for the future	
Creating empowered communities	
Promoting health and well-being	
Responding to your needs	

3. Risk assessment

Risk assessment results

We will undertake a detailed risk assessment exercise with management to identify the most significant areas of risk which pose a threat to achieving the corporate level objectives. The results of the risk assessment exercise will be used to shape the internal audit strategic plan to be delivered in 2015/16.

4. Annual plan and internal audit performance

Annual plan and indicative timeline

The following table sets out on a high level the internal audit work planned for April 2015 to March 2016.

Ref	Auditable Unit	Number of days	Comments
A.1	Governance and risk	75	<p>The Council's governance and risk framework has changed since the transition to the Shared Service model. New risks have arisen and responsibility for others has transferred to the outsourced service provider. Some of the underlying governance procedures, such as the risk management framework have not yet been updated to reflect the new risk profile.</p> <p>As part of our 2015/16 internal audit work, we will support the Council with a risk and assurance mapping exercise to help ensure that risk management and governance arrangements are fit for purpose going forward. Our work will include:</p> <ul style="list-style-type: none"> • Risk and assurance mapping exercise – workshop to identify risks, existing sources of assurance and/or gaps • Support in the development of a reviewed risk management framework and strategic risk register refresh <p>Following the risk assessment exercise further areas for review may be identified.</p>
A.2	LGSS Contract	75	<p>We will support the Council with the mid-term contract review including consideration of contract management procedures and the extent to which the anticipated savings are being achieved. Our suggested plan of work will include:</p> <ul style="list-style-type: none"> • Review of contract management procedures • Gap analysis over key risk areas • Assess processes the Council has in place to monitor contract performance targets and a validate date to ensure costs savings are being achieved
A.3	Directorate governance: Borough Secretary	10	<p>This review will examine the controls in place to ensure the Council's established processes for governance and financial accountability are operating consistently across the organisation and are suitably robust to achieve the Council's objectives.</p>

			This review will continue the Directorate reviews which were completed for Customers & Communities and Regeneration, Enterprise & Planning directorates as part of the 2014/15 internal audit plan.
A.4	Review of the section 151 officer role	10	Completion of the internal audit fieldwork and reporting of findings from the review started in 2014/15
	Project management	30	Management of the internal audit contract
Total internal audit days		200	

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
- We will use the results of the in depth risk assessment exercise to be undertaken with a number of senior management and non-executive 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.

<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)

<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 with management agreement	We expect to deliver the annual plan with tolerance of 10 days with agreement of management
Planning		
% of audits with Terms of Reference	100%	Terms of reference should be agreed with Audit Sponsor and Head of Service
Fieldwork		
Average of cost of an audit	£385 per day	To be in line with composite day rate
Cost savings identified	No more than 1 week after the completion of fieldwork	
Reporting		
Draft reports issues promptly	Within 3 weeks of completion of the audit site work.	
Attendance at Audit Committee	100%	
Relationships		
Overall client satisfaction score	8/10	



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