

Appendix 4

Draft Operational Plan 2010/11

March 2010

Northampton Borough Council

Internal audit risk assessment and plan

Draft Operational plan 2010/11

Distribution List

Audit Committee
Chief Executive
Directors
Heads of Service

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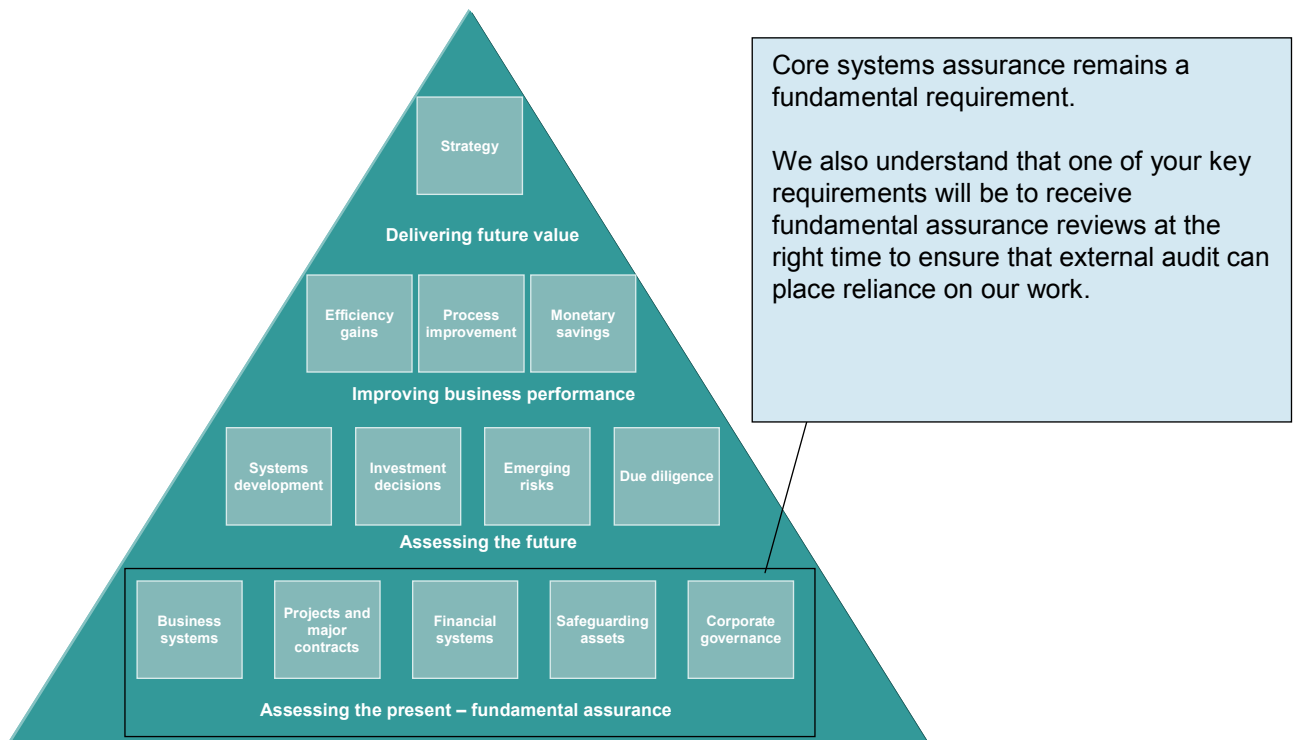
1 Introduction

In order to ensure that Northampton Borough Council's (NBC's) internal audit resources are effectively utilised, we have made use of the current assessment of the most significant risks facing NBC, as part of the process for preparing the Annual Internal Audit Plan for the period 2010/11. This is in line with current Internal Audit Standards and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

This Risk Assessment is a key factor in deciding how to allocate internal audit resources available. It ensures that resources are focused on those areas where they can be of most benefit to NBC by providing assurance to the Audit Committee and management on controls over key risks. This document sets out the key risks identified and our responses as internal auditors.

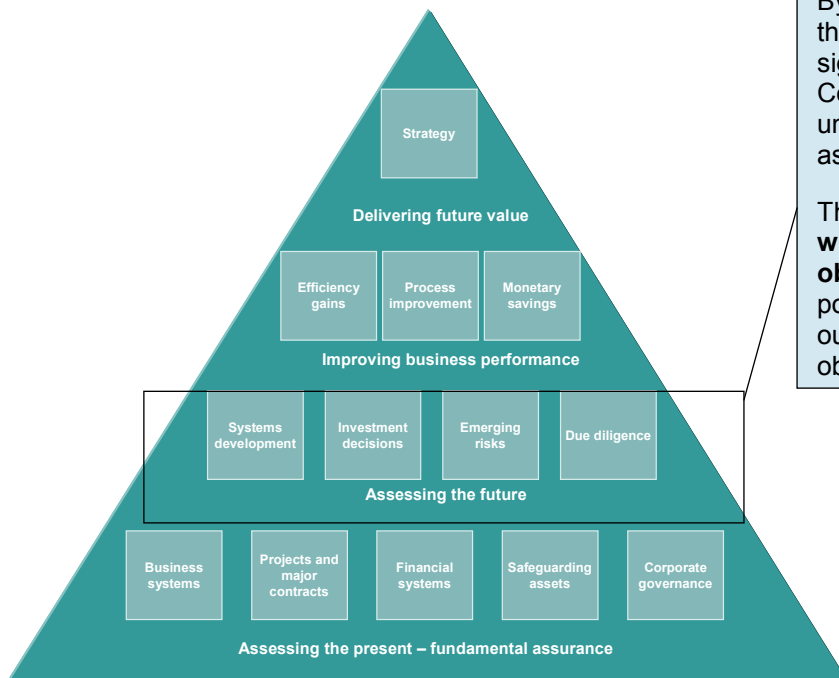
2 Providing assurance

Providing fundamental “core systems” assurance



We recognise the necessity to provide you with an on-going level of fundamental “core systems” assurance. We will also seek to maximise audit efficiency by continuing to work closely with your external auditors, the Audit Commission. This includes developing and enhancing our existing working arrangements with The Commission.

Moving towards a risk based audit approach



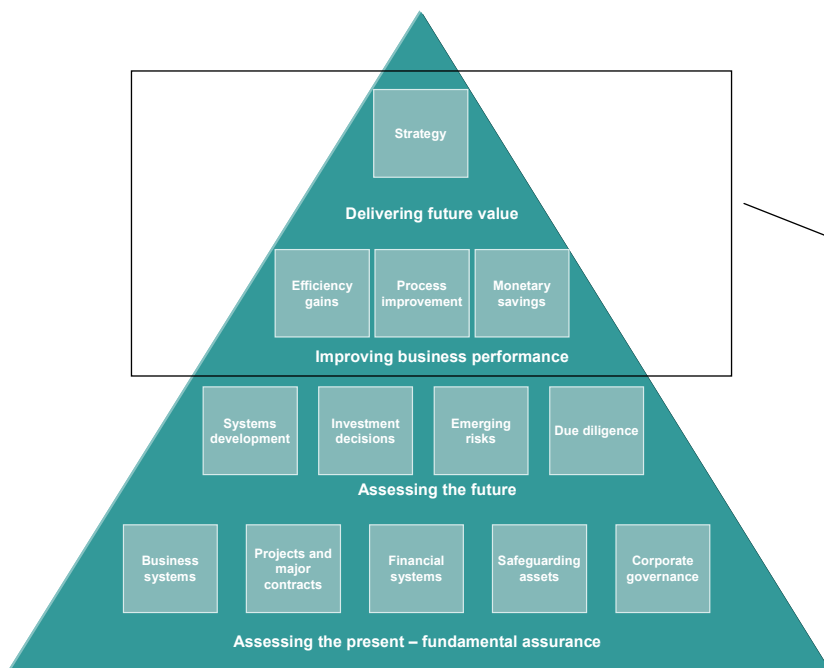
By adopting a risk based audit approach there will be clear linkage between the significant risks identified in your Corporate Risk Register and the work undertaken by internal audit in providing assurance against these.

The definition of risk is **“anything that will prevent you from achieving your objectives”**. As a result, the starting point for a risk based audit approach is our understanding of the Council’s objectives.

Risk based work is also critical to the Council, as it seeks to improve the risk awareness of staff, and improve overall control. Our work programme is designed to provide assurance that the significant risks identified within your risk register are being managed effectively. As part of this process we will also examine your risk management framework and governance procedures.

Delivering value through improved performance

Internal audit can also provide a valuable role in improving business performance and delivering future value. We can assist the Council through the deployment of specialist skills and experience, and our expertise in helping Council’s deliver their improvement priorities through value added work.



A significant element of the internal audit plan will remain focused on fundamental assurance. However, over time as risk management processes develop and the internal control environment strengthens, we would expect the proportion of the internal audit plan spent on this to reduce. For 2010/11 this has enabled us to concentrate more of our resources on assisting you to improve your business performance in areas such as efficiency gains, process improvements and delivering savings. An example of this is the carbon reduction commitment included in the 2010/11 operational plan.

We have identified a number of internal audit assignments at a strategic level, which will focus upon strategic and/or operational effectiveness. These include:

- Risk management
- Carbon reduction commitment
- Governance arrangements
- Performance management

Next steps

On approval of the risk assessment and internal audit plan, we will agree a 'project sponsor' for each review with management. All project sponsors will then be contacted and made aware of all audits during the year where they are the nominated sponsor. At this stage we will agree the timing of each review and a more detailed scope of work.. We will then issue Terms of Reference for each review in line with the agreed protocol.

3 The risk assessment process

The information which has been used to prepare our Risk Assessment and proposed Internal Audit Plan has been collected and collated from a number of different sources, including:

- A review of the NBC strategic and departmental risk registers
- Consultation with the following key individuals:
 - Management Board
 - Chair of Audit Committee
 - Heads of Service
 - External Audit
- A review of relevant documentation and reports provided to us
- Our knowledge of the Authority and results of our Internal Audit work undertaken in prior years.

Completeness of assessments and future reviews

Our risk assessment is limited to matters emerging from the processes listed above. We will review and update this assessment and the resulting internal audit plan annually. If, however, additional risks arise, or change in priority, during the year the audit plan will be reconsidered with management and, with the approval of the Audit Committee, amended to ensure that audit resources are focused on the new risk areas.

The risk assessment

Section 4 summarises the results of our Internal Audit Risk Assessment incorporating the strategic risks from the corporate risk registers. They show:

- The risk and consequence as identified by the Authority; and
- Our response with regard to our Internal Audit Plan.

This will allow the Audit Committee to track the proposed audit response to all the most significant risks NBC has identified. The Council's own response to these strategic risks will be addressed through its risk management process, which NBC operates as part of its overall governance arrangements.

4 Our risk assessment

Strategic risks identified by the Council through risk management processes		Audit response (Cross-referenced to operational plan)	
Risk	ID	Consequence of Risk	
Failure to understand our customers	1	<ul style="list-style-type: none"> Services are not shaped in line with customer demand and requirements. Community becomes disengaged with the council. Feedback is inadequate to be of use to the organisations future development. Process waste is not eliminated and re-work remains high. Council's reputation is damaged. 	OP4.1 Follow Up: Citizen Engagement
Failure to respond to the diversity of our customer base	2	<ul style="list-style-type: none"> Certain sectors of the community disengage with the council. Services are not shaped appropriately to meet the needs of the community as a whole. Services are not accessible to all and may disadvantage certain members of the community. Risk of legal action. Councils reputation is damaged 	OP4.1 Follow Up: Citizen Engagement
Failure to deliver a consistently positive customer experience	3	<ul style="list-style-type: none"> Customers are unclear how to access services. Customers have to make several contact attempts to gain information or request a service. Failure to achieve against NI14. Operating costs are high due to high levels of re-work and wasted processes. Customers receive inconsistent service responses according to who they are liaising with. Customer satisfaction levels are low. Council reputation is damaged. Employee 	OP4.1 Follow Up: Citizen Engagement

Strategic risks identified by the Council through risk management processes		Audit response (Cross-referenced to operational plan)	
Risk	ID	Consequence of Risk	
Failure to manage customer expectations	4	<p>satisfaction is negatively impacted.</p> <ul style="list-style-type: none"> Dissatisfied customers. Increased complaints. Customers have to make repeat contacts leading to dissatisfaction and increased operating costs. Loss of reputation. 	OP3.3 Performance management and Strategic Business Review Governance Arrangements
Well managed and mixed communities are not built	5	<ul style="list-style-type: none"> Areas of continued deprivation. Pockets of worklessness. Weak communities with little ambition or civic pride. Spirals of decline in urban fabric and personal attainment. 	No specific internal audit work
Failure to instil lasting pride in Northampton	6	<ul style="list-style-type: none"> Poor overall quality of life and dissatisfaction with the Council. Communities that are not engaged and do not assume responsibility for their neighbourhoods. The town stands still and does not attract new residents or new investment. 	OP4.1 Follow Up: Citizen Engagement
Failure to take full advantage of opportunities presented by the growth agenda and to deliver a better Northampton	7	<ul style="list-style-type: none"> A legacy of unattractive housing estates with poor facilities. Congestion in the town and poor public transport. Continued deprivation in parts of the urban core. 	OP3.3 Performance management and Strategic Business Review Governance Arrangements
Failure to understand what the public perceive as a better Northampton and as a result fail to agree a shared vision/ambition for Northampton	8	<ul style="list-style-type: none"> Low levels of public satisfaction. Ineffective priorities and investment plans. Low levels of buy in to new projects and poor ownership of what we are trying to achieve. 	OP3.3 Performance management and Strategic Business Review Governance Arrangements OP4.1 Follow Up: Partnerships
Failure to approve/adopt a coordinated suite of key strategies to deliver the shared vision and ambition for Northampton	9	<ul style="list-style-type: none"> Non-delivery of ambition and a better Northampton. Weak recognition of Team Northampton and what it stands for. 	OP4.1 Follow Up: Partnerships
Tension/lack of community cohesion	10	<ul style="list-style-type: none"> Exclusion of certain communities, creation of 'ghettos', possible violence. 	No specific internal audit work

Strategic risks identified by the Council through risk management processes		Audit response (Cross-referenced to operational plan)	
Risk	ID	Consequence of Risk	
Poor/inappropriate decisions/services	11	<ul style="list-style-type: none"> Resistance to change/lack of understanding or perception. 	<p>OP1.5 Budgetary Control</p> <p>OP4.1 Follow Up: Partnerships</p>
Missed opportunity/development	12	<ul style="list-style-type: none"> Lack of willing partners/loss of influence/bypassed for major decisions/loss or missed opportunities/funding. 	OP4.1 Follow Up: Partnerships
Lack of capacity to manage all resources, including people, finance and assets Inability to use our resources effectively	13	<ul style="list-style-type: none"> Senior Management Team does not work effectively and corporately. Failure to learn from previous mistakes. Loss of public confidence. Silo working leading to sub optimal solutions. Failure to improve external judgements e.g. CAA, UoR, Direction of Travel. Budget only balance through service cuts. Overspending leading to further service cuts. 	OP3.2 Governance
Failure to establish priorities and align them with resources available	14	<ul style="list-style-type: none"> Inability to focus. Unable to manage resources to deliver key priorities. 	<p>OP1.5 Budgetary Control</p> <p>OP3.2 Governance</p>
Failure to have effective governance and management arrangements in place throughout the council	15	<ul style="list-style-type: none"> Slow and possibly unlawful decision making. Unconstitutional decisions. Inconsistent standards and added complexity to decision making. 	OP3.2 Governance
Failure to recognise opportunities internal and external	16	<ul style="list-style-type: none"> Miss external funding opportunities. Miss collaborative opportunities. Fail to identify opportunities. 	OP3.1 Risk management & Business Continuity Arrangements
There is a risk that inconsistent messages are communicated; Culture is not changed continuing poor performance; Organisation	17	<ul style="list-style-type: none"> Organisation isn't working towards Corporate Plan and Improvement agenda. Different cultures are developed in different 	OP3.3 Performance management and Strategic Business Review Governance

Strategic risks identified by the Council through risk management processes		Audit response (Cross-referenced to operational plan)	
Risk	ID	Consequence of Risk	
set objectives in different Directorates/services		directorates/services. People working to different objectives and thus not on same journey.	Arrangements
Risk that good performing staff leave; staff commitment reduces; staff don't commit to leadership challenge as they don't believe in leadership	18	<ul style="list-style-type: none"> Improvement agenda not moving as quickly as required; Discontentment in staff = decrease in productivity. 	OP2.2 Human Resources
External – Government monitoring/scrutiny is not reduced; Public perception is not improving Internal – no internal ambassadors; increase in turnover – decrease in attraction to key jobs,	19	<ul style="list-style-type: none"> Decrease in funding opportunities; Failure to hit 2013 target; Difficulty to fill key roles; Lack of internal ambassadors increases external lack of confidence; Increase in Recruitment and Selection costs 	OP1.5 Budgetary Control OP2.2 Human Resources
Disjointed working mixed messages to staff; decrease in funding opportunities if not joined up; 2013 objective not delivered	20	<ul style="list-style-type: none"> Duplicate projects / work being undertaken; Reduced commitment in Council objectives; Less funding to deliver transformation agenda; Failure of our key objective 	OP3.2 Governance
Targets are not delivered and may not understand real reasons for non delivery; Staff who are committed to change become dissatisfied; Improvement agenda is not as quick as required	21	<ul style="list-style-type: none"> Improvement plan fails; Increase in turnover of committed staff; Budget targets not achieved 	OP3.3 Performance management and Strategic Business Review Governance Arrangements
Strategic Business Reviews do not deliver the expected level of efficiencies and service improvements	22	<ul style="list-style-type: none"> Lack of service improvements and financial efficiencies 	OP1.5 Budgetary Control OP3.3 Performance management and Strategic Business Review Governance Arrangements

In addition to the corporate risk registers, we have also identified other risk areas through our review of the departmental risk registers. These have been included in the operational plan in Section 5.

Management should consider those areas where there is no specific internal audit work planned and ensure that they can obtain sufficient assurance from other sources that risks are being mitigated effectively.

5 Proposed internal audit plan

The proposed internal audit plan for 2010/11 is set out below (in summary and detail) for the approval of management and the Audit Committee. This has been informed by the risk analysis in Section 3 in accordance with modern internal auditing standards and the CIPFA Code of Practice for Internal Audit in Local Government in the UK.

In each instance an overview of the review has been included, along with estimated days. Once the programme has been agreed in outline, we will refine the precise scope of each review and agree this, and the related days, with management.

Our plan assumes a mix of days as detailed below:

Grade	Days	% of audit plan
Auditor	132	45%
Manager	15	5%
Director/Senior Manager/Specialist	148	50%

Summary operational internal audit plan 2010/11

Area of coverage	Proposed Days (2010/11)	Prior Year Days (2009/10)
Fundamental assurance (operational systems reviews)	103	111
Risk based assurance (operational systems reviews)	103	128
Performance assurance (strategic reviews)	37	50
Other	52	45
TOTAL	295	334

Detailed operational internal audit plan 2010/11

System	Source	Points of Focus	Audit approach	Days	Quarter	Main Contact Details
OP1 Operational systems reviews – fundamental assurance						
OP1.1 General Ledger	Managed audit	Input controls. Accuracy of outputs. Security over access and data. System enhancements. Changes in key staff or operating procedures.	Full systems review; Review any system enhancements. Changes in key staff or operating procedures. Follow up	8	3	
OP1.2 Debtors	Managed audit	All sources of income are identified. Invoices are raised in a timely, complete and accurate fashion. Adequacy of debt collection, recovery and write-off procedures. Security over access and data.	Full systems review; Review any system enhancements. Changes in key staff or operating procedures. Follow up	8	3	
OP1.3 Creditor payments	Managed audit	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.	Full systems review; Changes to Agresso, OAP & Uniclass. Changes in key staff or operating procedures. Follow up	10	3	
OP1.4 Payroll	Managed audit	Starters, leavers and amendments Calculation of deductions Temporary variations to pay Security of system and access controls	Full systems review; Review any system enhancements. Changes in key staff or operating procedures. Follow up	10	3	
OP1.5 Budgetary Control	Managed audit	Efficiency savings programme 2010/11 Budget setting process for	Full systems review	8	4	

System	Source	Points of Focus	Audit approach	Days	Quarter	Main Contact Details
		efficiency savings 2011/12 Budget monitoring and reporting				
OP1.6 Council Tax	Managed audit	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	Limited scope review; Review any system enhancements. Changes in key staff or operating procedures. Follow up	8	3	
OP1.7 National Non Domestic Rates	Managed audit	Identification and valuation of properties Reliefs and exceptions are appropriately calculated and applied Billing & collection Recovery and enforcement Accounting for NNDR Compliance with legislation	Limited scope review; Assess any changes made to the system. Undertake testing to ensure controls are operating. Follow up	6	2	
OP1.8 Bank Reconciliations	Managed audit	All bank accounts are subject to regular and independent review & reconciliations. Use of suspense accounts is limited and items promptly cleared. Re-performance of reconciliations to ensure accurately completed.	Limited scope review; Assess any changes made to the system. Undertake testing to ensure controls are operating. Follow up	7	3	
OP1.9 Cash Collection	Managed audit	All income collection points are known. Adequate controls over post opening and processes in place for the secure receipt and recording of cash. Banking takes place promptly. Cash is accurately recorded against debtor and income accounts.	Limited scope review; Assess any changes made to the system. Undertake testing to ensure controls are operating. Follow up	7	2	

System	Source	Points of Focus	Audit approach	Days	Quarter	Main Contact Details
		Use of suspense accounts. Adequate segregation of duties. Unders and overs are accurately recorded and investigated.				
OP1.10 Housing Benefits	Managed audit	Benefit assessment and payments	Review of assessment and payment procedures Overview of progress against improvement plan Follow-up	10	4	
OP1.11 Expenses (including members)	Managed audit	Policies and procedures are up to date and communicated to employees Claims are made in line with policies and procedures Discrepancies and investigated and resolved prior to payment. Only permissible expenses are claimed and paid Authorised signatory list is in place and only authorised claims are processed	Limited scope review; Review of the expenses claiming processes Undertake testing to ensure controls are operating	7	2	
OP1.12 Fixed Assets	Managed audit	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	Limited scope review; Assess any changes made to the system. Undertake testing to ensure controls are operating. Follow up	6	4	
OP1.13 Housing Rents	Managed audit	Rent setting and annual increases Calculation of annual rent debit	Limited scope review; Assess any changes made to	8	3	

System	Source	Points of Focus	Audit approach	Days	Quarter	Main Contact Details
		Changes to housing stocks Debt collection, allocation and rebates	the system. Undertake testing to ensure controls are operating. Follow up			
Subtotal				103		

System	Source	Points of Focus	Audit approach	Days	Quarter	Main Contact Details
OP2 Operational systems reviews – risk based assurance						
OP 2.1 Carbon Reduction Commitment	Head of Finance	<p>Governance arrangements for the Carbon Reduction Commitment.</p> <p>Reporting arrangements, including monitoring of performance.</p> <p>Impact on cash-flow has been calculated and monitored.</p> <p>Maintenance of evidence records to show the annual organisation-wide energy consumption</p> <p>Systems in place to track actual usage vs budgeted allowances</p> <p>Outcomes used for Use of Resources purposes</p>	<p>Limited scope review</p> <p>Review the systems processes and controls in place and assess operation of these.</p>	10	2	
OP2.2 Human Resources	<p>Strategic Plan</p> <p>Departmental Risk register</p>	<p>Implementation of new sickness absence procedure</p> <p>Reporting arrangements for sickness absence</p> <p>Processes for using agency workers</p> <p>Pay and grading appeals</p>	<p>Limited scope reviews:</p> <p>Review the systems processes and controls in place and assess operation of these.</p> <p>Also prior year follow up</p>	13	1	
OP2.3 Westbridge Depot	Internal Audit and Head of Finance	<p>Streetscene</p> <p>Grounds maintenance</p> <p>Stores</p>	<p>Limited scope review:</p> <p>Review the systems processes and controls in place and assess operation of these.</p> <p>Also prior year follow up.</p>	15	2	
OP2.5 Voluntary Grants	Internal Audit	Grants to voluntary organisations	<p>Limited scope review</p> <p>Voluntary grant management</p> <p>Grant conditions</p>	7	2	

System	Source	Points of Focus	Audit approach	Days	Quarter	Main Contact Details
			Verification procedures SLA's			
OP2.6 Void Management	Departmental risk register	Void expenditure and void turnaround	Limited scope review: Voids management assessing expenditure on voids and turnaround	7	2	
OP2.7 Procurement/VFM	Departmental risk register	Monitoring and reporting of efficiency savings from shared procurement Procurement strategy.	Limited scope review Review of approach being taken to ensure value for money in respect of purchasing activity. Assess current procurement processes and strategies.	10	3	
OP2.9 Environmental Health and Private Hire Licensing	Internal audit	Commercial Services Private Hire Licensing Arrangements	Limited scope review: Review systems and procedures in place for granting, monitoring and enforcement in relation to licensing. Apportionment of costs for Private Hire Licensing	13	1	
OP2.10 Planning Applications	Departmental risk register	Policies and procedures Management information including performance indicators Communication with stakeholders Appeals process	Full scope review Review the systems processes and controls in place and assess operation of these.	8	2	
OP2.11 ICT audits	Risk Register & Strategic	Project initiation and management Implementation of IBS system modules.	Full scope reviews: Project management procedures and	15	3	

System	Source	Points of Focus	Audit approach	Days	Quarter	Main Contact Details
	Plan		implementation process.			
OP2.13 Insurance Claims	Internal audit	Claims management and handling. Data interrogation on source of claims Reporting	Review the systems processes and controls in place and assess operation of these.	5	2	
Subtotal				103		

System	Source	Points of Focus	Audit approach	Days	Quarter	Main Contact Details
OP3 Strategic – performance assurance						
OP3.1 Risk management & Business Continuity Arrangements	Strategic risk register	Risk management framework Fraud risk management Business continuity	Limited scope review Progress with risk management and assurance Fraud risk assessment BCP arrangements	5	2	
OP3.2 Governance	Corporate risk register Legal Services risk register	Management information to Cabinet	Limited scope review Robustness of management information provided to Cabinet members Process for production and authorisation of MI.	10	3/4	
OP3.3 Performance management and Strategic Business Review Governance Arrangements	Risk register	Performance framework KPIs Governance arrangements for Strategic Business Reviews Data quality	Full scope review Performance management measurement and monitoring Governance arrangements	12	2/3	
OP3.4 Anti fraud and corruption	Sector issue	Anti fraud and corruption policies and procedures	Limited scope review Evaluation of policies and procedures	10	4	
Subtotal				37		

System	Source	Points of Focus	Audit approach	Days	Quarter	Main Contact Details
OP4 Other						
OP4.1 Specific follow up reviews: Temporary Accommodation Home Renovation Partnerships Citizen Engagement		Follow up on recommendations made as part of 2009/10 Internal Audit Work on: Temporary Accommodation Home Renovation Partnerships Citizen Engagement	To obtain confirmation of actions taken to address any weakness highlighted	7	2	
OP4.1 Follow up	Team Central	Recommendations made as part of Internal Audit Work.	To obtain confirmation of actions taken to address any weakness highlighted as part of 2008/09 and 2009/10 Internal Audit Work and verify where appropriate. Also update TeamCentral with 2010/11 recommendations. Producing CPR reports. Ad hoc training.	12	3/4	
OP4.2 NFI	Audit Commission	Review of relevant reports prior to reporting back to Audit Commission.	To liaise with Risk Manager and identify reports that require audit follow up and investigate in a timely manner so that returns can be made to the Audit Commission.	15	3/4	
OP4.3 Audit management				18		
Subtotal				52		
TOTAL				295		

In the event that, pursuant to a request which Northampton Borough Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Northampton Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Northampton Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC Northampton Borough Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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