
Northampton Borough Council

Draft Internal Audit Risk Assessment and Plan

Internal audit risk
assessment and plan

2011/2012

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 be 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 2011/12 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 2011/12 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

Sue Bridge

Head of Planning

Steve Elsey

Head of Public Protection

Cheryl Doran (on behalf of Marion Goodman)

Customer Service Manager

Kathy Brookes (on behalf of Dale Robertson)

Performance Team Leader

David Atkinson

Head of West Northamptonshire JPU

Christine Ansell

Head of Landlord Services

Garry Pyne

Head of Procurement

Cllr Tony Woods

Chair of the Audit Committee

Robin Bates

Head of Revenues and Benefits

David Bailey

Director of Planning and Regeneration

Cara Boden

Assistant Chief Executive

Julie Seddon

Director of Environment and Culture

Bill Lewis

Head of Finance

We have also asked for input from the following key personnel:

Ian Redfern

Head of Culture and Leisure

Catherine Wilson

Head of Revenues and Benefits

Fran Rogers

Head of Performance and Improvement

Lesley Wearing

Director of Housing

Francis Fernandes

Borough Solicitor

Chris Cavanagh

Head of Regeneration and Development

Simone Wade

Head of Neighbourhood Environmental Services

Thomas Hall

Head of Policy and Community Engagement

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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	4	●	Every year
A.11	Payroll		6	2	5	●	Every year
A.12	Fixed Assets		6	4	4	●	Every year
A.13	Cash and Banking		6	5	4	●	Every year
A.14	Expenses		5	2	4	●	Every year
A.15	Housing Benefits		6	3	4	●	Every year
A.16	Debt Recovery		6	2	5	●	Every year
A.17	Collection Fund		5	4	3	●	Every two years
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
B.3	Revenues and Benefits	CP 8 Providing quality services CP 1 Supporting you when you need it	6	3	4	●	Every year

Ref	Auditable Unit	Corporate objectives	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.4	Customer Services and ICT	CP 8 Providing quality services CP9 Satisfying our customers	6	4	4	●	Every year
B.5	Landlord Services	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	5	3	4	●	Every year
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 Northamptonshire JPU	CP 8 Providing quality services CP9 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	CP 4 Helping create a clean, green and safe Northampton	5	3	4	●	Every year
B.13	Culture and Leisure	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
B.15	Corporate Performance and Change	CP 8 Providing quality services	4	3	3	●	Every two years

Ref	Auditable Unit	Corporate objectives	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.16	Communications Team	CP 8 Providing quality services CP9 Satisfying our customers	3	2	2	●	Every three years
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	5	3	4	●	Every year

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	

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; or Significant monetary or financial statement impact; or 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; or Major monetary or financial statement impact; or 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; 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)
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 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

4. Internal Audit Plan and Indicative Timeline

Internal Audit Plan and Indicative Timeline

The following table sets out the internal audit work planned for 2010/11

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A	Cross-cutting						
A.1	Risk Management	5		x			Risk Management and Business Continuity review to cover: Risk management framework Fraud risk management Business continuity
A.2	Procurement	10		x			Procurement review to cover: <ul style="list-style-type: none"> • Tendering and quotations controls • Training and guidance for officers • Monitoring of adherence to procurement rules • Changes in procurement arrangements
A.3	Business Continuity	N/A		x			See Risk Management – Audit combined with RM
A.4	Governance	N/A					Governance survey – See Value Enhancement section below
A.5	Treasury Management	5	x				Treasury management review to cover: <ul style="list-style-type: none"> • Treasury Management Strategy • Monitoring controls over compliance with strategy
A.6	Budgetary Control	8				x	Budgetary Controls review to cover: <ul style="list-style-type: none"> • Budget setting process • Budget monitoring and reporting
A.7	General Ledger	8			x		General Ledger review to cover: <ul style="list-style-type: none"> • Input controls. • Accuracy of outputs. • Security over access and data. • System enhancements. • Changes in key staff or operating procedures.

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A.8	Debtors	6		x			Debtors review to cover: <ul style="list-style-type: none"> All sources of income are identified. Invoices are raised in a timely, complete and accurate fashion.
A.9	Creditors (Agresso)	6			x		Creditors review to cover: <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.10	Creditors (IBS)	8			x		Creditors review to cover: <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.11	Payroll	10			x		Payroll review to cover: <ul style="list-style-type: none"> Starters, leavers and amendments Calculation of deductions Temporary variations to pay Security of system and access controls
A.12	Fixed Assets	6				x	Fixed Assets review to cover: <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

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A.13	Cash and Banking	10			X		<p>Cash and banking review to cover:</p> <ul style="list-style-type: none"> 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. 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. Use of suspense accounts. Adequate segregation of duties. Unders and overs are accurately recorded and investigated.
A.14	Expenses	7			X		<p>Expenses review to cover:</p> <ul style="list-style-type: none"> 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
A.15	Housing Benefits	8				X	<p>Housing Benefits review to cover:</p> <ul style="list-style-type: none"> Benefit processing Payment of benefits
A.16	Housing rents	10			X		<p>Housing Rents review to cover:</p> <ul style="list-style-type: none"> Rent setting and annual increases Calculation of annual rent debit Changes to housing stocks Debt collection, allocation and rebates
A.17	Debt Recovery	7				X	<p>Debt Recovery review to cover:</p> <ul style="list-style-type: none"> Adequacy of debt collection, recovery and write-off procedures.

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A.18	Partnership Arrangements	8		x			Partnership arrangements across the Authority, including governance and risk management
Total		122					
B	Departmental						
B.1	Human Resources	8				x	<i>Induction training</i> – Processes and controls around induction training
		8	x				<i>Recruitment</i> – Processes and controls around recruitment (including decentralised processes within departments)
B.2	Customer Services and ICT	15				x	<i>IT reviews</i> – Including IT general controls and IT security
B.3	Landlord Services	N/A					<i>HRA assumptions within Business Plan</i> - See Value Enhancement below
		10			x		<i>Decent Homes programme</i> – contract management/monitoring
B.4	Strategic Housing	6	x				<i>Voids</i> - Void expenditure and void turnaround
B.5	Planning	10				x	<i>West Northamptonshire Development Corporation (WNDC)</i> – Review of governance arrangements for stage 2 transition of WNDC
		8					<i>Locally set planning fees</i> – Assumptions within costing model
B.6	Regeneration and Development	10	x				Governance arrangements around regeneration projects, including Grovsenor and St Johns projects
B.7	Asset Management	8		x			Asset management review to cover: Time recording system Disposals Delivery of corporate programme
B.8	Environmental Services	N/A					<i>Environmental Services Contract</i> - See Value Enhancement below
B.9	Culture and Leisure	10				x	<i>Leisure Trust Contract</i> - Contract management/monitoring arrangements
B.10	Corporate Performance and Change	10				x	<i>Performance Management Framework</i> - Oversight of data quality and performance management and arrangements for performance related pay
		5		x			<i>Project governance</i> – Specific review of Electronic Data Management System (EDMS) project
B.11	Democratic and Chief Executive Services	5	x				<i>Community Asset Transfer Scheme</i> –Risk management arrangements

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Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
B.12	Borough Solicitor Function	N/A					Anti-fraud awareness training - See Value Enhancement below
Total		113					
VE	Value Enhancement						
VE.1	Anti-fraud and corruption training (Members and Officers)	2		×			Anti-fraud and corruption training to be provided to Members and Officers 10 days in total to be used, including the 8 days carried forward from 2010/11 as per bottom of this table.
VE.2	Governance survey	10				×	Survey last performed in 2009/10. Follow up survey to identify progress since the previous survey.
VE.3	Audit Committee Effectiveness Training	2	×				Audit committee effectiveness training for Members
VE.4	Environmental Services Contract Review	10	×				Specialist contract/contract monitoring arrangements review for Environmental Services
VE.5	HRA –Business Plan assumptions review	5		×			Specialist review of assumptions within 30 year Business Plan
Total		29					
PM	Project Management/Other						
PM.1	Follow Up	3		×			• Museum Security
PM.2	Teamcentral	10	×	×	×	×	Teamcentral maintenance
PM.3	Audit Management	18	×	×	×	×	Management of the internal audit contract
Total		31					
TOTAL PROPOSED DAYS		295					
Additional days carried forward from 2010/11 plan							
N/A	NFI	10	×				5 days used from 15 available in 2010/11. The rest is carried forward for work to be completed in Q1 2011/12
N/A	Anti-fraud and Corruption training (Members and Officers)	8		×			Anti-fraud training for Members and Officers to be carried out in Q1
N/A	Voids	4	×				Audit postponed in 2010/11. Added 4 days available to 6 days included in 2011/12 plan to provide 10 days for full controls audit
Total		22					

The table above shows indicative start dates 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.15 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
CP 4 Helping create a clean, green and safe Northampton	VE.4 Environmental Services Contract review A.18 Partnership Arrangements
CP 5 Delivering inviting and enjoyable open spaces	VE.4 Environmental Services Contract review
CP 6 Driving the development of a confident, ambitious and successful Northampton	B.6 Regeneration B.12 Community Asset Transfer Scheme
CP 7 Being a responsive Council	VE.4 Environmental Services Contract review
CP 8 Providing quality services	All reviews in section A – Cross Cutting B.11 Corporate Performance and Change reviews
CP9 Satisfying our customers	A.15 Housing Benefits A.16 Housing Rents

Risk	Cross reference to Internal Audit Plan (see Section 4)
Failure to deliver a balanced and deliverable budget.	A.6 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.6 Regeneration B.11 Community Asset Transfer Scheme

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

VE.2 Governance

A.1 Risk Management

The Council fails to make the best use of resources (assets, people, technology).

B.1 Human Resources reviews

B.2 Customer Services and ICT reviews

B.7 Asset Management

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