

# *Internal Audit Risk Assessment and Plan 2014/15*

Northampton Borough  
Council

October 2014

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## **Distribution List**

David Kennedy, Chief Executive

Francis Fernandes, Monitoring Officer

Glenn Hammons, Section 151 Officer

Senior Management Team

Audit Committee

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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.

*Step 1*  
*Understand corporate objectives and risks*

- Obtain information and utilise sector knowledge to identify corporate level objectives and risks.

*Step 2*  
*Define the audit universe*

- Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.

*Step 3*  
*Assess the inherent risk*

- Assess the inherent risk of each auditable unit based on impact and likelihood criteria.

*Step 4*  
*Assess the strength of the control environment*

- Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.

*Step 5*  
*Calculate the audit requirement rating*

- Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.

*Step 6*  
*Determine the audit plan*

- Determine the timing and scope of audit work based on the organisation's risk appetite.

*Step 7*  
*Other considerations*

- Consider additional audit requirements to those identified from the risk assessment process.

## *Basis of our plan*

The level of agreed resources for the internal audit service for April 2014 to March 2015 is 301 days and £115,885, 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 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. Other sources of assurance for each auditable unit are noted in our Risk Assessment in section 3 of this document, and a summary is given below.

Other sources of assurance for Northampton Borough Council are as follows:

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

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

## *Key contacts*

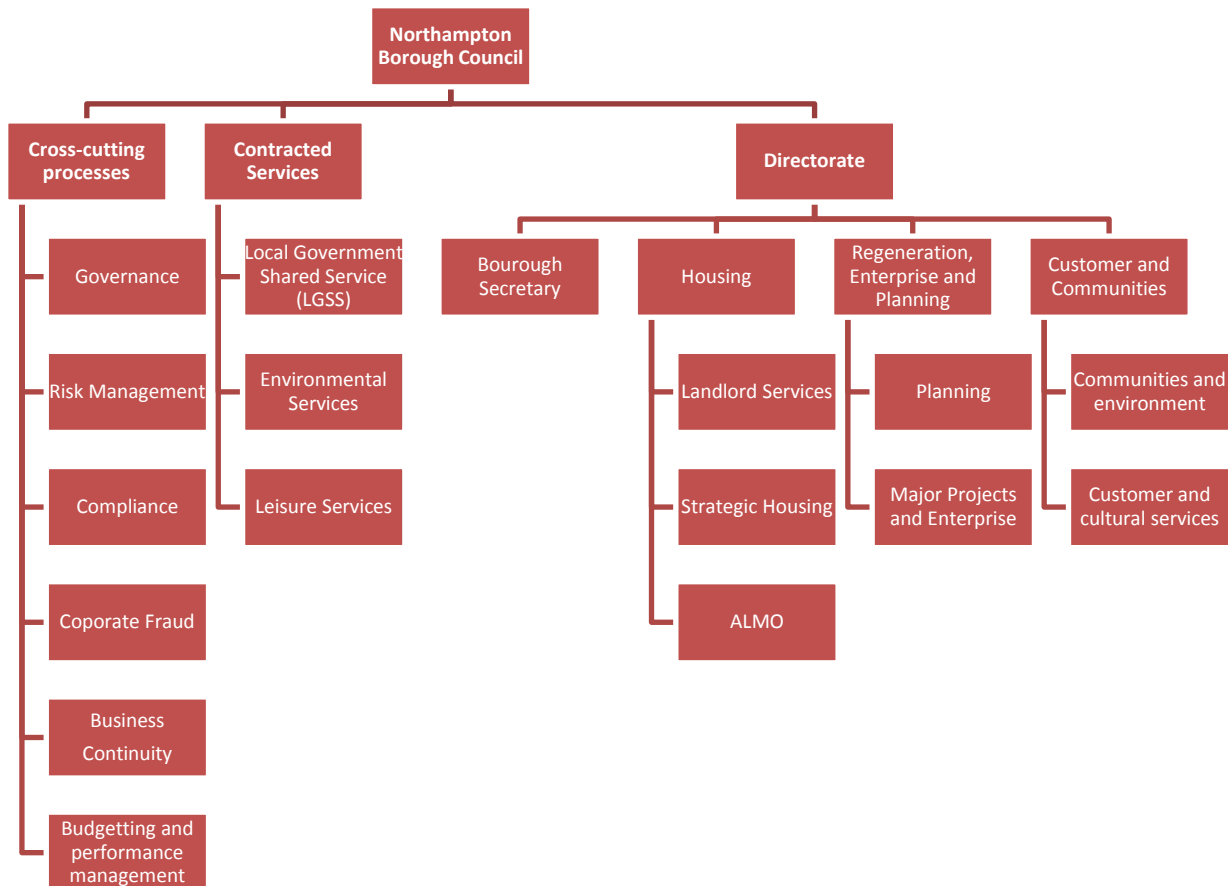
Meetings have been held with the following key personnel during the planning process:

<i>Name</i>	<i>Job Title</i>
David Kennedy	Chief Executive
Francis Fernandes	Monitoring Officer
Rebecca Smith	Assistant Head of Finance (LGSS)
Paul Clarke	Internal Audit (LGSS)

## 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

We understand that 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>Priority</i>	<i>Risk(s) to achievement of objective</i>	<i>Cross reference to Internal Audit Plan (see Section 4)</i>
Northampton Alive – a vibrant town	<ol style="list-style-type: none"> <li>1. The plans for improving the economic prosperity of Northampton are not delivered.</li> <li>2. Failure to deliver a balanced and deliverable budget.</li> <li>3. The Council fails to deliver key priorities and make the best use of resources (assets, people, technology).</li> <li>4. The organisation fails to meet customer needs.</li> <li>5. Viability/capability to support or resource service demand.</li> </ol>	A.1 / C.2
Invest in safer, cleaner neighbourhoods		B.2
Celebrating our heritage and culture		C.3
Making every £ go further		A.1 / A.2 / C1-5
Better homes for the future		C.1
Creating empowered communities		C.3
Promoting health and well-being		C.3
Responding to your needs		A.3 / C1-5

# 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.

In June 2013 Northampton Borough Council outsourced its “back office” function to the Local Government Shared Service (LGSS). For an initial period of five years LGSS will be responsible for the delivery of the following services on behalf of Northampton Borough Council:

- HR, organisational and workforce development, programme management (including payroll and health and safety)
- ICT
- Finance (including treasury management, senior financial advice and Section 151 Officer)
- Legal services
- Revenues and benefits
- Procurement
- Insurance

The auditable units reflect the new organisational structure. In 2014/15 all auditable units will be assessed to determine the processes and controls. The frequency of future reviews will be determined based on the outputs from the 2014/15 internal audit reviews.

The risk assessment ensures that all identified auditable units will be covered by internal audit during the three year strategic internal audit plan.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
<b>A</b>	<b>Cross-cutting processes</b>					
A.1	Risk management	5	2	4	●	Annual
A.2	Compliance	5	2	4	●	Annual
A.2	Governance	6	3	5	●	Annual
A.3	Corporate Fraud	5	3	4	●	Annual
A.4	Business continuity	5	2	4	●	Annual
A.5	Budgeting and performance management	6	5	4	●	Annual
<b>B</b>	<b>Outsourced</b>					
B.1	Local government shared service	5	3	4	●	Annual

	(LGSS)					
B.2	Environmental services contract	4	3	3	●	Every two years
B.3.	Leisure services	3	3	2	●	Every three years
<b>C</b>	<b>Directorate</b>					
C.1	<i>Housing</i>					
C.1.1	Landlord Services	5	2	4	●	Annual
C.1.2	Strategic Housing	5	2	4	●	Annual
C.1.3	Housing ALMO	4	3	4	●	Every two years
C.2	<i>Regeneration, Enterprise and Planning</i>					
C.2.1	Planning	4	3	3	●	Every two years
C.2.2	Major projects and enterprise	4	3	3	●	Every two years
C.3	<i>Customers and Communities</i>					
C.3.1	Communities and environment	4	3	3	●	Every two years
C.3.2	Customers and Cultural Services	4	3	3	●	Every two years
C.4	<i>Borough Secretary</i>	4	3	4	●	Every two years

### *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 April 2014 to March 2015, together with indicative start dates for each audit.

Ref	Auditable Unit	Indicative number of audit days	Value enhancement/ protection	Proposed timing				Comments
				Q1	Q2	Q3	Q4	
<b>A</b>	<b>Cross Cutting Processes – Governance, Risk Management and Compliance</b>							
A.1	Risk management and Business Continuity	30	VP			X		Current state assessment and specialist support for the refresh of the risk management framework and business continuity programme, using best practice methodologies.
A.2	Policy compliance. Review of selected polices: <ul style="list-style-type: none"> <li>• Data protection</li> <li>• Information Governance</li> <li>• Financial Delegations</li> <li>• Procurement, including exception process</li> <li>• Insurance</li> <li>• Corporate Fraud</li> <li>• Recruitment</li> </ul>	80	VP			X	X	For each of the key policies and procedures identified: <ul style="list-style-type: none"> <li>• review the policy and compare to best practice.</li> <li>• test compliance with the policy across the Council ensuring consideration is given to permanent officers and interims.</li> <li>• assess the adequacy of reporting mechanisms and process for handling non-compliance.</li> </ul>
A.3	Governance: <i>Questionnaire and follow-up</i>	12	VE			X		i) Distribute governance survey, collate and report results (deferred from 13/14). ii) Follow up and/or additional reviews in response to results from Governance Survey.
<b>Total</b>		<b>122</b>						
<b>B</b>	<b>Contracted Services</b>							
B.1	Local government shared service	28	VE			X		i) Testing of adherence to best practice contract

	(LGSS)							management processes identified in 2013/14 review. ii) Review of the scope and effectiveness of the Section 151 arrangement provided by LGSS compared to the CIPFA statement on “The Role of the CFO in Local Government”.
B.2	Environmental services contract	20	VE				X	Deferred from 2013/14. Review of the contract and map out key responsibilities of both the contractor and the Council. Identify the key controls and processes which should be in place. Test performance against key controls.
<b>Total</b>		<b>48</b>						
<b>C</b>	<b>Directorate</b>							
Directorate Governance and Accountability								
C.1	Housing <ul style="list-style-type: none"> <li>• Strategic Housing</li> <li>• Landlord Services</li> </ul>	15	VP				X	<p>This series of reviews will examine the controls in place across each Directorate 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> <p>For each of the directorates we will perform a review to cover the following scope:</p> <ul style="list-style-type: none"> <li>• Directorate structure</li> <li>• Decision making and accountability, including awareness of authority levels and compliance with approved delegations of authority</li> <li>• Objective setting and risk assessment</li> <li>• Budget and performance</li> </ul>
C.2	Regeneration, Enterprise and Planning <ul style="list-style-type: none"> <li>• Major projects and enterprise</li> <li>• Planning</li> </ul>	15	VP				X	
C.3	Customers and Communities <ul style="list-style-type: none"> <li>• Communities &amp; Environment</li> <li>• Customers &amp; Culture</li> </ul>	15	VP				X	
C.4	Borough Secretary	10	VP				X	

								<ul style="list-style-type: none"> <li>• monitoring</li> <li>• HR processes</li> <li>• Financial processes and controls, including: <ul style="list-style-type: none"> <li>○ Payments</li> <li>○ Income</li> <li>○ Capital assets</li> <li>○ Payroll</li> <li>○ Cash</li> </ul> </li> </ul>
<b>Directorate responsive reviews</b>								
	Planning	-	VP					Pre-implementation review of the planning system controls. Deferred to 15/16 due to delays in procurement.
	Contingency for additional responsive reviews	20						Contingency for additional responsive reviews to consider projects/risks.
<b>Total</b>		<b>75</b>						
<b>D</b>	<b>Project management</b>							
	Project management	30	NA	X	X	X	X	Management of the internal audit contract.
<b>Total</b>		<b>30</b>						
<b>Total internal audit</b>		<b>275</b>						
<b>E</b>	<b>Additional support</b>							
	HR review	26	NA		X			Internal audit days re-allocated to management review of HR using specialist forensic resource.
<b>Total</b>		<b>301</b>						

In addition to these services, we will provide a range of benefits to the Council at no additional cost which include:

- Regular technical updates and alerts from PwC Assurance on topics including accounting changes and new legislation;
- Circulation of recent publications by PwC and PwC's Public Sector Research Institute plus ad hoc reports;
- Provision of thought leadership pieces;
- Ad hoc briefings for the Audit Committee (e.g. risk management and local government finance); and
- An invitation for the Chair of Audit Committee and officers to attend our local training days.

## *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 strategy, organisational structure and corporate risk register;
- Drawn on our knowledge of the local government sector; and
- Met with a number 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 reduce 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)
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>
<b>Infrastructure</b>		
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
<b>Planning</b>		
% of audits with Terms of Reference	100%	Terms of reference should be agreed with Audit Sponsor and Head of Service
<b>Fieldwork</b>		
Exit meeting to confirm matters arising from the audit	<b>No more than 1 week</b> after the completion of fieldwork	
<b>Reporting</b>		
Draft reports issued promptly	<b>Within 3 weeks</b> of the exit meeting/completion of audit work.	
Attendance at Audit Committee	100%	
<b>Relationships</b>		
Overall client satisfaction score	8/10	





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