

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

**DRAFT**

**Cherwell District  
Council**

**March 2014**

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## **Distribution List**

Joint Management Team

Members of the Accounts, Audit and Risk Committee

This document has been prepared only for Cherwell District Council and solely for the purpose and on the terms agreed with Cherwell District Council.

# 1. Introduction and approach

## Introduction

This document sets out the risk assessment and our internal audit plan for Cherwell District 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 the Council's organisational objectives and priorities, and the risks that may prevent the Council from meeting those objectives. A more detailed description of our approach can be found in Appendix 1 and 2.

<p><i>Step 1</i> <i>Understand corporate objectives and risks</i></p>	<ul style="list-style-type: none"> <li>• Obtain information and utilise sector knowledge to identify corporate level objectives and risks.</li> </ul>
<p><i>Step 2</i> <i>Define the audit universe</i></p>	<ul style="list-style-type: none"> <li>• Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.</li> </ul>
<p><i>Step 3</i> <i>Assess the inherent risk</i></p>	<ul style="list-style-type: none"> <li>• Assess the inherent risk of each auditable unit based on impact and likelihood criteria.</li> </ul>
<p><i>Step 4</i> <i>Assess the strength of the control environment</i></p>	<ul style="list-style-type: none"> <li>• Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.</li> </ul>
<p><i>Step 5</i> <i>Calculate the audit requirement rating</i></p>	<ul style="list-style-type: none"> <li>• Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.</li> </ul>
<p><i>Step 6</i> <i>Determine the audit plan</i></p>	<ul style="list-style-type: none"> <li>• Determine the timing and scope of audit work based on the organisation's risk appetite.</li> </ul>
<p><i>Step 7</i> <i>Other considerations</i></p>	<ul style="list-style-type: none"> <li>• Consider additional audit requirements to those identified from the risk assessment process.</li> </ul>

## *Basis of our plan*

In order to carry out the level of work that our risk assessment indicates is appropriate; we estimate that the resource requirement for the Council's internal audit service is 123 days and £47,355. Based on our risk assessment, this is the level of resource that we believe would be necessary to evaluate the effectiveness of risk management, control and governance processes. The level of agreed resources for the internal audit service for the Council is 123 days and £47,355, 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 Accounts, Audit and Risk 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.

Some of the other sources of assurance for the Council are as follows:

- external inspections;
- external audit work; and
- ISO accreditations.

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

## *Key contacts*

Meetings and/or conversations have been held with the following key personnel during the planning process:

<i>Name, Job Title</i>	<i>Name, Job Title</i>	<i>Name, Job Title</i>
Sue Smith, Chief Executive	Ian Davies, Director of Community and Environment	Calvin Bell, Director of Development
Karen Curtin, Director of Bicester	Martin Henry, Director of Resources (S151 Officer)	Tim Madden, Interim Head of Finance and Procurement
Jo Pitman, Head of Transformation		

## 2. Audit universe, corporate objectives and risks

### Audit universe

We have identified the auditable units within the Council based on your structure and meetings with officers and members. Any processes running across a number of different elements in the Council and which can be audited once have been separately identified under cross-cutting reviews in the audit universe.

### Corporate objectives and risks

Corporate level objectives and risks have been determined by Cherwell District Council. These are recorded in the table below and have been considered when preparing the internal audit plan.

We have also reviewed your corporate risks register and linked all high risks scoring net in excess of 10 points to our audit plan as follows:

Objective	Risk(s) to achievement of objective	Cross reference to Internal Audit Plan (see Section 4)
A District of opportunity	S14: CDC Local Plan: Failure to ensure sound local plan and priorities linked to objectives.	B1, B4 and B5 VE1 and VE2
A Cleaner, Greener District	S15: CDC Local Plan, County SHMA: Risk of additional housing requirements from Oxford  C1 – Business Continuity: Plans not in place to deliver in event of incident: reputational and service failure	B1, B4 and B5 VE1 and VE2
A Safe, Healthy and Thriving District	C7 – Joint Working: Reputational damage, service and financial performance decline.	B1, B4 and B5 VE1 and VE2
An accessible, Value for Money Council	C9 – Equalities: Failure to comply with legislation, reputational damage and legal risk.  C10 – Health and Safety: Failure to comply with legislation, reputational damage and legal risk.  C12 – CDC Planning (Major Applications): failure to meet planning inspectorate threshold and subject to special measures  P5 – Oxfordshire LEP and P8 – South Midlands LEP: Partnership doesn't work and fails to add value and align with objectives.	A.1 to A.3 All Cross Cutting Sections B1, B2, B5 and B6 VE1 and VE2

## 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.

Ref	Auditable Unit	Corporate objectives and risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	[Intensity / Frequency]
<b>A</b>	<b>Corporate / Cross Cutting Reviews</b>						
A.1	General Ledger **	An accessible, Value for Money Council	6	4	4	●	Annual
A.2	Debtors **		5	4	4	●	Every two years
A.3	Creditors **		5	4	4	●	Every two years
A.4	Payroll		6	5	4	●	Annual
A.5	Budgetary Control		5	5	4	●	Every two years
A.6	Collection Fund		6	4	4	●	Annual
A.7	Cashiers		4	3	3	●	Every two years
A.8	Treasury Management **		4	3	3	●	Every two years
A.9	Housing Benefits		6	4	4	●	Annual
A.10	Fixed Assets **		4	3	3	●	Every two years
A.11	VAT **		3	3	2	●	Every two years
A.12	Car Parking		3	3	2	●	Every three years
A.13	Risk Management **		5	3	4	●	Annual
A.14	Information Technology **		6	4	4	●	Annual
<b>B</b>	<b>Department</b>						
B.1	Community Services	A District of opportunity	5	4	3	●	Every two years
B.2	Environmental	A cleaner,	5	3	4	●	Annual

	Services	greener District					
B.3	Finance and Procurement **	An accessible, value for money Council	5	3	4	●	Annual
B.4	Law and Governance	A safe, healthy and thriving district.	4	3	3	●	Every two years
B.5	Public Protection and Development Management	A cleaner, greener District	4	3	3	●	Every two years
B.6	Strategic Planning and the Economy	A cleaner, greener District A District of opportunity	5	3	4	●	Annual
B.7	Regeneration and Housing	A safe, healthy and thriving district; and A District of opportunity.	5	3	4	●	Annual
B.8	Communications	A District of Opportunity; and An accessible, value for money council.	3	2	2	●	Every two years
B.9	Performance Management	A District of opportunity	4	3	3	●	Every two years
B.10	Programme Management **	An accessible, value for money Council	6	3	5	●	Annual
B.11	Human Resources **	A District of opportunity	5	3	4	●	Annual

## *Key to intensity / 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	
	Key areas of focus	

The audit requirement rating drives the frequency of internal audit work for each auditable unit. Our recommended planning approach involves scheduling an annual audit when the rating ranges from 6 to 4, an audit every two years when the rating is 3 and an audit every three years when the rating is 2.

The audit requirement rating drives the intensity of internal audit work for each auditable unit. Our recommended planning approach involves scheduling a full scope audit when the rating ranges from 6 to 4, a review of monitoring controls when the rating is 3 and a review of business monitoring controls when the rating is 2.



# 4. Annual plan and internal audit performance

## Annual plan and indicative timeline

The following table sets out the internal audit work planned for 1 April 2014 to 31 March 2015, together with indicative start dates for each audit.

Ref	Auditable Unit Points of Focus	Indicative number of audit days	Q1	Q2	Q3	Q4
<b>A</b>	<b>Corporate systems / Cross Cutting Reviews</b>					
A.1	<b>Finance Systems</b> <ul style="list-style-type: none"> <li>General Ledger (4)</li> <li>Payroll (4)</li> <li>Collection Fund (Council Tax and NNDR) (6)</li> <li>Housing Benefits (4)</li> <li>Treasury (4)</li> </ul>	22			✓	
A.2	<b>IT Systems (Finance Agresso Project) **</b> Ongoing review and support in change management and finance system upgrades	7		✓	✓	
A.3	<b>Review of Corporate Costs **</b> <ul style="list-style-type: none"> <li>Corporate Telephony Costs</li> </ul>	3	✓			
<b>B</b>	<b>Department</b>					
B.1	<b>Programme Management</b> Ongoing support to consider programme management and key ways of working on major programmes across the council, to be agreed during the plan year. Key projects include: <ul style="list-style-type: none"> <li>Graven Hill</li> <li>Bicester Town Centre Redevelopment</li> <li>Build Programme</li> </ul>	10	✓	✓	✓	✓
B.2	<b>Risk Management/Governance **</b> Review the adequacy of risk management arrangements within the Council and we will provide you with a view on your Joint Risk Management arrangements.	3				✓
B.3	<b>IT – Access/Recovery **</b> Review controls around access rights on selected systems to consider the following controls: <ul style="list-style-type: none"> <li>Adequate passwords are in place for each IT platform;</li> <li>Authorisation controls over new starters access to the network and applications;</li> <li>Controls over timely notification and removal of leavers, and removal of access to the network and applications;</li> <li>Regular evidenced, independent review of user access; and</li> <li>Appropriate controls over application administrators (including superusers).</li> </ul>	6	✓			

B.4	<b>Housing – Planning Applications</b> Review the processes you have put in place to manage the changes and alter your systems to process applications effectively.	6		✓		
B.5	<b>Service Redesign – Vfm assessments</b> To review current service plans and operational design and arrangements to benchmark performance on selected service.  <ul style="list-style-type: none"> <li>• Strategic Planning and the Economy</li> <li>• Regeneration and Housing</li> <li>• Environmental Services</li> </ul>	6	✓			✓
B.6	<b>Finance Year End Support</b> To support you at year end. This support will include a critical review of your draft accounts, accountancy support and attendance at your close down group.	4				
<b>VE</b>	<b>Value Enhancement</b>					
VE.1	<b>Joint Working and Transformation Programme</b> Review of the governance and business cases for efficiencies and savings for three way working.  <ul style="list-style-type: none"> <li>• Future Service delivery and Governance Concept</li> <li>• Governance Models</li> <li>• New Ways of Working</li> </ul>	15		✓		
VE.2	<b>Service Redesign – Income Optimisation / Commercialisation</b> To review current service plans and operational redesign and arrangements to maximise efficiencies and potential income streams and to consider the commercialisation of revenue schemes.  Covering key areas including: <ul style="list-style-type: none"> <li>• Contract assurance; and</li> <li>• Fees and Charges.</li> </ul> On selected service from: <ul style="list-style-type: none"> <li>• Strategic Planning and the Economy;</li> <li>• Regeneration and Housing; and</li> <li>• Environmental Services.</li> </ul>	5				✓
<b>PM</b>	<b>Project management</b>					
PM.1	Project management	25	✓	✓	✓	✓
PM.2	Contingency	7				
	<b>Total Days</b>	<b>123</b>				

Where reviews have been annotated “\*\*\*”, these relate to processes we have assumed will be followed consistently across both Cherwell and South Northamptonshire Councils. We have therefore reduced days in this area to reflect a joint review. These areas have been indicated to us through discussions with management at both Councils.

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 South Northamptonshire 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)
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.

KPI	Target
<b>A) Planning</b>	
1 % of audits completed with Terms of Reference	100%
2 Terms of Reference agreed promptly	100% at least 2 weeks prior to the start of a review
<b>B) Fieldwork</b>	
3 % of audits with a closing meeting	100%
<b>C) Reporting</b>	
4 Draft reports issued promptly	100% within 2 weeks of a closing meeting
5 Critical and high risk rated reports issued to Audit Committee	100% within 1 week after the draft report has been issued to management
6 Attendance at Accounts, Audit and Risk Committee	100% meetings attended by HIA and / or Audit Manager





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