
Cherwell District Council Internal Audit Risk Assessment and Plan 2012/2013

Internal audit risk
assessment and plan

Distribution List

Joint Management Team

Members of the Accounts, Audit and Risk Committee

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1. Introduction and Approach

Introduction

This document sets out the internal audit risk assessment and annual plan for Cherwell District Council (“the Council”).

Approach

A summary of our approach to developing the risk assessment and annual internal audit plan is set out below. A more detailed description can be found in Appendix 3.



Key contacts

Meetings have been held with the Joint Management Team as part of the planning process, and we have consulted the Chairman of the Accounts, Audit and Risk Committee, the Lead Member for Financial Planning and the Audit Commission (the External Auditors).

Defining the 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, which is shown in full in Section 2. Where processes are currently shared or there are plans for joint arrangements with South Northamptonshire Council in year, these have been identified in our assessment and annotated as “joint reviews” in our draft audit plan.











Corporate level objectives and risks as defined in both the Corporate Plan and Risk Register respectively have been mapped to the auditable units. They are set out in Appendix 1.

2. Risk Assessment





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 3.

** Denotes those services which will be shared with South Northamptonshire Council (SNC) during 2012/13 or where a single policy/procedure is in place across the Authorities

Ref	Auditable Unit	Corporate objective	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
A Cross-cutting Processes							
A.1	General Ledger **	Cherwell: An accessible, value for money Council	6	4	4	●	Every year
A.2	Debtors **		6	4	4	●	Every year
A.3	Creditors **		6	5	4	●	Every year
A.4	Payroll		6	5	4	●	Every year
A.5	Budgetary Control		6	4	4	●	Every year
A.6	Collection Fund		6	4	4	●	Every year
A.7	Cashiers		4	3	3	●	Every two years
A.8	Treasury Management **		4	3	3	●	Every two years
A.9	Housing Benefits		6	3	5	●	Every year
A.10	Fixed Assets **		5	4	3	●	Every two years
A.11	VAT **		3	2	2	●	Every three years
A.12	Car Parking		5	4	3	●	Every two years
A.13	Risk Management **		5	3	4	●	Every year
A.14	Information Technology **		6	4	4	●	Every year
B Department Level							
B.1	Community Services	A safe and healthy Cherwell	4	3	3	●	Every two years

Ref	Auditable Unit	Corporate objective	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.2	Environmental Services	A cleaner, greener Cherwell	5	3	4		Every year
B.3	Finance and Procurement **	Cherwell: An accessible, value for money Council	5	3	4		Every year
B.4	Law and Governance	Cherwell: An accessible, value for money Council	4	3	3		Every two years
B.5	Public Protection and Development Management	A safe and healthy Cherwell	4	3	3		Every two years
B.6	Strategic Planning and the Economy	Cherwell, a district of opportunity	5	3	4		Every year
B.7	Regeneration and Housing	Cherwell, a district of opportunity	5	3	4		Every year
B.8	Communications	Cherwell: An accessible, value for money Council	3	2	3		Every two years
B.9	Performance Management	Cherwell: An accessible, value for money Council	5	3	4		Every year
B.10	Programme Management **	Cherwell: An accessible, value for money Council	5	3	4		Every year
B.11	Human Resources **	Cherwell: An accessible, value for money Council	5	3	4		Every year

Key to frequency of audit work

Audit Requirement Rating	Colour Code	Timescale	Description
6, 5,4		Every year	A review of processing and monitoring control design and operating effectiveness
3		Every two years	
2		Every three years	
1		No further work	n/a

3. Internal Audit Plan and Indicative Timeline

Internal Audit Plan and Indicative Timeline

We have discussed with management the expectation that our audit days will decrease from prior year to reflect the needs of the Council to make efficiency savings. This commitment has been reflected in the total number of audit days decreasing from 175 in prior year to a proposed 160. This is in line with our indicative audit plan we submitted to management as part of the tender process.

Ref	Auditable Unit	Indicative number of audit days	Points of Focus			
			Q 1	Q 2	Q 3	Q 4
A	Cross-cutting Processes					
A.1	General Ledger **	3			X	<ul style="list-style-type: none"> Key control account reconciliations Input and output controls System enhancements System integrity
A.2	Debtors**	3			X	<ul style="list-style-type: none"> Identification of income streams Invoice raising Debt collection and recovery
A.3	Creditors **	3			X	<ul style="list-style-type: none"> Order and invoice process Payments process Creditor system outputs
A.4	Payroll	5		X		<ul style="list-style-type: none"> Changes to standing data Payment process Expenses and flexi time System integrity
A.5	Budgetary Control	10			X	Budgetary control following SNC integration To include: <ul style="list-style-type: none"> Recharge structure Budget setting and cost centre configuration Budget monitoring processes
A.6	Collection Fund	5		X		Council Tax and Business Rates processes To include: <ul style="list-style-type: none"> Calculation of liabilities Billing processes Debt Collection and Recovery Interaction with CAPITA System integrity
A.9	Housing Benefits – subsidy testing (Specialist)	8		X		Secondment of a member of the Housing Benefits team to the Council to support testing on claims in advance of subsidy claim.

A.13	Risk Management **	5			X	<ul style="list-style-type: none"> • Policies and Procedures • Reporting and Monitoring of risk • Risk Identification • Embedding Risk Management
A.14	IT Transition arrangements (Specialist)**	5	X			<p>Review of the arrangements in place for reconfiguration of the IT function to include:</p> <ul style="list-style-type: none"> • Resource mapping • Data Protection arrangements • Software enhancements and procurement
A.14	IT Policies and Procedures (Specialist)**	5	X			<p>Review of the joint polices and procedures in place for IT to ensure they are robust and fit for purpose.</p>
A.14	Disaster Recovery and Business Continuity (Specialist)**	5		X		<ul style="list-style-type: none"> • Design of policies and procedures for disaster recovery and business continuity • Testing of procedures • Communication of controls
-	Fraud Risk Assessment (Specialist)	5		X		<p>Diagnostic tool to identify the areas of higher fraud risk and the controls in place to mitigate against the threats.</p>
	TOTAL	62				
B Department Level						
B.3	Finance and Procurement – Year end support ** (Specialist)	5			X	<ul style="list-style-type: none"> • Year end accounts support
B.9	Performance – Performance Management	5			X	<ul style="list-style-type: none"> • Use of Performance Plus • Data Quality Spot Checks • Rationalisation of Performance Indicators
B.2	Environmental Services – Dry Recycling	5		X		<ul style="list-style-type: none"> • Contract arrangements • Governance processes • Raising and collection of income • Collection rates
B.6	Strategic Planning and the Environment – Planning Applications	5			X	<ul style="list-style-type: none"> • Processing of applications • Compliance with policies and legislation • Raising and collection of income
B.10	Programme Management - Project and Programme Management ** (Specialist)	10	X			<p>Review of the structure and implementation of a project management team within the organisation. To consider:</p> <ul style="list-style-type: none"> • Resource • Reporting arrangements • Performance monitoring • Risk Management • Governance

B.11	Human Resources – Workforce Planning and Performance Management ** (Specialist)	5				X	<ul style="list-style-type: none"> • Workforce planning • Performance Management and disciplinary policies 		
B.7	Regeneration and Housing – Eco Town	5				X	<ul style="list-style-type: none"> • Validation of expenditure against funding conditions • Review of current governance and monitoring arrangements 		
	TOTAL	40							
VE Value Enhancement									
VE.1	Finance business case – Critical Friend	5				X	Critical appraisal of the joint finance business case to ensure whether the proposed structure is fit for purpose.		
VE.2	Contract Assurance – Capita Contract (Specialist)	10				X	Review of the current Capita contract to ensure that appropriate performance management and key performance indicators are in place. Review of contract terms to identify potential efficiency savings.		
VE.3	Estates and Asset Management	10				X	Review of the asset management strategy to ensure value from the asset base.		
VE.4	Shared Management – Governance and Efficiency	5			X	X	X	X	Validation of costs & efficiency savings on a quarterly basis
	TOTAL	30							
PM Project Management									
PM1	Follow up	5			X	X	X	X	
PM 2	Audit Management	23			X	X	X	X	
	TOTAL	28							
	TOTAL PROPOSED DAYS	160							

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 eg In Control which looks at Audit Committee Chairman’s expectations of their internal auditors;
- 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

Appendix 1: Corporate Objectives and Risks

These corporate level objectives have been determined by you in your “Corporate Plan and Improvement Strategy 2007-2012”

Objective	Cross reference to Internal Audit Plan (see Section 4)
Cherwell: A district of opportunity	<ul style="list-style-type: none"> B.6 - Strategic Planning and the Environment – Planning Applications VE3 - Estates and Asset Management
A safe and healthy Cherwell	A.14 - Disaster Recovery and Business Continuity
A cleaner, greener Cherwell	<ul style="list-style-type: none"> B.2 Environmental Services – Dry Recycling B.7 Regeneration and Housing – Eco Town
Cherwell: An accessible, value for money Council	<p>All of our cross cutting process reviews address this objective along with the following discrete reviews:</p> <ul style="list-style-type: none"> B.9 - Performance – Performance Management B.10 - Programme Management - Project and Programme Management B.11 Human Resources – Workforce Planning and Performance Management VE.2 - Contract Assurance – Capita Contract VE.4 - Shared Management – Governance and Efficiency

We have reviewed your corporate risk register and linked all risks scoring in excess of 10 “net points” (high medium and above) to our audit plan as follows:

Risk	Cross reference to Internal Audit Plan (see Section 4)
RS03 – Local Development Framework	B.7 Regeneration and Housing – Eco Town
RS04 – Economic and Social Changes	VE.4 - Shared Management – Governance and Efficiency

RS05 – Horton Hospital

n/a not a direct risk for Council operations

RC02 – Capital Investments

- B.7 Regeneration and Housing – Eco Town
- VE3 - Estates and Asset Management

RC04 – Equalities Legislation

B.11 Human Resources – Workforce Planning and Performance Management

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.

Impact rating	Assessment rationale
6	Critical impact on operational performance (quantify = if possible); or Critical monetary or financial statement impact (quantify = materiality); or Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
5	Significant impact on operational performance (quantify if possible); or Significant monetary or financial statement impact (quantify = materiality /2); or Significant breach in laws and regulations resulting in large fines and consequences (quantify if possible); or Significant impact on the reputation or brand of the organisation (quantify if possible).
4	Major impact on operational performance (quantify if possible); or Major monetary or financial statement impact (quantify = materiality /4); or Major breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or Major impact on the reputation or brand of the organisation (quantify if possible).
3	Moderate impact on the organisation's operational performance (quantify if possible); or Moderate monetary or financial statement impact (quantify = materiality /8); or Moderate breach in laws and regulations with moderate consequences (quantify if possible); or Moderate impact on the reputation of the organisation (quantify if possible).
2	Minor impact on the organisation's operational performance (quantify if possible); or Minor monetary or financial statement impact (quantify = materiality /16); or Minor breach in laws and regulations with limited consequences (quantify if possible); or Minor impact on the reputation of the organisation (quantify if possible).
1	Insignificant impact on the organisation's operational performance (quantify if possible); or Insignificant monetary or financial statement impact (quantify = materiality /32); or Insignificant breach in laws and regulations with little consequence (quantify if possible); or Insignificant impact on the reputation of the organisation (quantify if possible).

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

Appendix 3: Detailed methodology

Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- reviewed your corporate plan, organisational structure and corporate risk register;
- drawn on our knowledge of the local government sector; and
- met with the Joint Management Team and members.

Step 2 - Define the Audit Universe

In order that our internal audit plan reflects your management and operating structure we have identified the audit universe for Cherwell District 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

Our 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 inherent risk assessment is determined by:

- mapping the corporate risks to the auditable units
- our knowledge of your business and its sector
- 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
- the outcomes of previous internal audit reviews.

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 of 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 or lower intensity 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.

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