
Cherwell District Council Internal Audit Risk Assessment and Plan 2013/2014

Internal audit risk
assessment and plan

June 2013

Distribution List

Joint Management Team

Members of the Audit 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 consulted Ernst and Young (the External Auditors).

Scope of our plan

We discuss the resources available for the internal audit service with officers, and a budget of 142 days is available. We agreed that this was sufficient for the work required to report on key risks and controls during the year and to prepare our annual audit opinion and report. We cannot address all risks identified by the risk assessment process. The Audit Committee needs to be satisfied that we address those risks about which it needs assurance, and let us know if it requires us to reassess priorities or carry out further work.

Basis of our annual internal audit conclusion

We comply with the Public Sector internal Audit Standards, which are not designed or intended to conform to the International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board. As a consequence our work is not designed to comply with the International Standards on Assurance Engagements.

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 in our final individual internal audit reports.

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 Priorities 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 2013/14 or where a single policy or procedure is in place across the Authorities.

Ref	Auditable Unit	Corporate priority	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
A Cross-cutting Processes							
A.1	General Ledger **	An accessible, Value for Money Council	6	4	4	●	Every year
A.2	Debtors **		6	5	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	4	4	●	Every year
A.10	Fixed Assets **		6	4	5	●	Every year
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 District of Opportunity	5	3	4	●	Every year

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

Audit Requirement Rating	Colour Code	Timescale	Description
2		Every three years	
1		No further work	n/a

The audit requirement rating drives the frequency of an internal audit. 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 internal audit budget of 142 days means our recommended planning approach can't be followed. Therefore, the frequency internal audits are scheduled has been flexed. This means all auditable units can now be audited over a three year cycle given the size of the internal audit budget. Flexing the frequency means management and the Accounts, Audit and Risk Committee is accepting an increased risk appetite.

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 160 in prior year to a proposed 142. This is in line with our indicative audit plan we submitted to management as part of the tender process. The plan below also includes the 20 days of reviews deferred from 2012/13 plan in addition.

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			×	<ul style="list-style-type: none"> Key control account reconciliations Input and output controls System enhancements System integrity Suspense Accounts 	
A.2	Debtors**	3			×	<ul style="list-style-type: none"> Identification of income streams Invoice raising Debt collection and recovery 	
A.3	Creditors **	3			×	<ul style="list-style-type: none"> Order and invoice process Payments process Creditor system outputs 	
A.4	Payroll	3			×	<ul style="list-style-type: none"> Changes to standing data Payment process Expenses and flexi time System integrity 	
A.5	Budgetary Control Treasury Management	5				×	<ul style="list-style-type: none"> Recharge structure Budget setting and cost centre configuration Budget monitoring processes Variations Treasury Management policy Investment decision making process
A.6	Collection Fund	3				×	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	4		×		<ul style="list-style-type: none"> • Processing of benefits claims • Accounting for housing benefits • Performance monitoring
A.13	Risk Management **	8		×	×	<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	×			<p>Deferred from 2012/13 Plan</p> <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		×		<p>Deferred from 2012/13 Plan</p> <p>Review of the joint policies and procedures in place for IT to ensure they are robust and fit for purpose.</p>
A.14	Disaster Recovery and Business Continuity (Specialist)**	3		×		<p>Follow up on 2012/13 review</p> <ul style="list-style-type: none"> • Design of policies and procedures for disaster recovery and business continuity • Testing of procedures • Communication of controls
A.14	IT Risk Management Access and Recovery (Specialist)**	5		×		<p>We will review the design and operating effectiveness of the IT risk management controls in place to ensure:</p> <ul style="list-style-type: none"> • IT risks are identified and captured in a timely manner; • IT risks are consistently managed and where necessary appropriate mitigation is in place; and • The IT risk register is complete, accurate and valid. <p>We will review controls around access rights on selected systems to consider the following controls</p> <ul style="list-style-type: none"> • Adequate passwords are in place for each IT platform; • Authorisation controls over new starters access to the network and applications; • Controls over timely notification and removal of leavers, and removal of access to the network and applications; • Regular evidenced, independent review of user access; and • Appropriate controls over application administrators (including superusers).
TOTAL		50				

B Department Level							
B.1	Finance and Procurement – Year end support ** (Specialist)	4				×	<ul style="list-style-type: none"> Year end accounts support (13/14)
B.2	Performance – Performance Management	5				×	<ul style="list-style-type: none"> Use of Performance Plus Data Quality Spot Checks Rationalisation of Performance Indicators Post Employment Training Review
B.3	Community Services – Grant Allocation	5			×		<ul style="list-style-type: none"> Application process Stewardship of funds Accounting for grants
B.4	Programme Management - Project and Programme Management ** (Specialist)	20		×	×	×	<ul style="list-style-type: none"> Welfare Reform Review Programme Resource Planning Gateway Review Controls Partnership arrangements Major Projects - Focusing on Banbury / Bicester developments <ul style="list-style-type: none"> Assessment process, governance, resources, skills identification, service impact assessment, stakeholder management. Council Tax Benefit to Council Tax Reduction Scheme and Business rates Retention
B.5	Human Resources – Workforce Planning and Performance Management ** (Specialist)	5			×		<p>Deferred from 2012/13 Plan</p> <ul style="list-style-type: none"> Workforce planning Resource Link Project
B.6	Payroll Implementation** (Specialist)	5			×		<p>Deferred from 2012/13 Plan</p> <p>Review of merging of the Council’s payroll systems</p>
B.7	Environmental Services	5				×	<ul style="list-style-type: none"> Contract arrangements Governance processes Raising and collection of income Collection rates
B.8	Human Resources – Employment Contracts ** (Specialist)	5				×	<p>Review of employment contracts – review of arrangements in place</p>
	TOTAL	54					
VE Value Enhancement							
VE.1	Joint Working Arrangements**	10				×	<p>Review of performance and governance arrangements around current joint working arrangements.</p> <ul style="list-style-type: none"> Service Quality impact Resource / Skills gap impact

VE.2	Joint Working Arrangements**	10			×	Review of performance and governance arrangements around planned future joint working arrangements <ul style="list-style-type: none"> • Identification/ Assessment business cases • Service Quality impact assessment • Resource / Skills gaps impact assessment
VE.3	Contingency	10				To respond to emerging risks as identified
	TOTAL	30				
PM	Project Management					
PM1	Follow up	5				
PM 2	Audit Management	23				
	TOTAL	28				
	TOTAL PROPOSED DAYS	162				

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 priorities have been determined by you in your '2013/14 Business Plan'.

Priority	Cross reference to Internal Audit Plan (see Section 4)
A District of opportunity	B1. Community Services B.8 Communication Services B.9 Performance Management B.11 Human Resources B.6 Strategic Planning and the Environment B.7 Regeneration and Housing
A Cleaner, Greener District	B.2 Environmental Services B.6 Strategic Planning and the Environment
A Safe, Healthy and Thriving District	B.9 Law and Governance B.7 Regeneration and Housing
An accessible, Value for Money Council	A.1 to A.17 All Cross Cutting Sections B.3 Finance and Procurement B.8 Communications B.8 Programme Management

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

Risk	Cross reference to Internal Audit Plan (see Section 4)
<p>1. RCo4 Joint Working.</p> <p>Failure to implement and manage joint working- resulting in:</p> <ul style="list-style-type: none"> • Reduced performance; • Failure to realise savings/ benefits • Negative impact on reputation 	<p>VE1 Joint Working Arrangements VE2 Joint Working Arrangements</p>
<p>2. RCo9 Emergency Planning</p> <p>The Emergency Plan is a document that formulates the Councils responses to major incidents around the district and across its boundaries.</p>	<p>A.14 Disaster Recovery</p>
<p>3. RCo8 Health and Safety</p> <p>Failure to comply with health and safety legislation leads to injury, sickness, absence and litigation against the Council.</p>	<p>B.8 Environmental Services B.5 Performance Management B.9 Law and Governance</p>
<p>4. Capital Investment & Asset Management</p> <p>Poor investment and asset management results in the Councils not maximising financial returns or losing income.</p>	<p>A.15 Treasury Management VE.1 Critical Friend</p>

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; 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.

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; and
- 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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