
Oxford City Council

Internal Audit Risk Assessment and Plan

2011/2012

Internal audit risk
assessment and plan

Distribution List

Executive Management Team

Heads of Service

Audit Committee Members

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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 Oxford City Council (“the Council”)

Approach

Our approach to developing the audit plan is set out below.

Defining the Audit Universe

Dividing Oxford City Council into auditable units

We have identified the auditable units within the Council based on your structure and meetings with officers and members.

Any processes which run across a number of different elements within the 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 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.

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 scope 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.

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. An example of this is “Customer Services” where the cash collection element of this process is deemed higher risk than the remainder of functions and as such is drawn out for regular review.

Details of the correlation between the audit requirement rating and the frequency 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 arrived at 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 Corporate Heads of Service, the Audit Committee and the Audit Commission as part of the planning process.








2. Risk Assessment

Audit universe of Oxford City Council with risk assessment results

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	An efficient and effective Council	6	4	4	●	Every year
A.2	Debtors		6	3	5	●	Every year
A.3	Creditors		6	4	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		5	2	4	●	Every year
A.8	Treasury Management		5	2	4	●	Every two years
A.9	Housing Benefits		6	4	5	●	Every year
A.10	Fixed Assets		6	3	5	●	Every year
A.11	VAT		3	2	2	●	Every three years
A.12	Car Parking		5	3	4	●	Every year
A.13	Housing Rents		5	5	5	●	Every year
A.14	Governance		5	3	4	●	Every year
A.15	Risk Management		5	3	4	●	Every year
B Department Level							
B.1	People and Equalities	An efficient and effective Council	4	3	3	●	Every two years
B.2	Law and Governance	An efficient and effective Council	5	3	4	●	Every year

Ref	Auditable Unit	Corporate objective	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.3	Corporate Assets	A vibrant and sustainable economy	4	3	3		Every two years
B.4	Housing and Communities	Meeting housing needs	5	3	4		Every year
B.5	City Development	Stronger and active communities	3	2	2		Every three years
B.6	Policy, Culture and Communications	A vibrant and sustainable economy	3	2	2		Every three years
B.7	Direct Services	Cleaner greener Oxford	5	3	4		Every year
B.8	Environmental Development	Cleaner greener Oxford	4	3	3		Every two years
B.9	Leisure and Parks	Stronger and active communities	3	2	2		Every three years
B.10	Customer Services	An efficient and effective Council	4	3	3		Every two years
B.11	Finance	An efficient and effective Council	6	3	4		Every year
B.12	Business Improvement	An efficient and effective Council	5	3	4		Every year
B.13	ICT Strategy	An efficient and effective Council	6	3	5		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	
			Exception audits

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 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

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 2011/12. This is based on our risk assessment details above.

We have discussed with management the expectation that our audit days will decrease by approximately 10 days 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 260 in prior year to a proposed 250.

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	10		X			<ul style="list-style-type: none"> • Key control account reconciliations • Input and output controls • System enhancements • System integrity
A.2	Debtors	10			X		<ul style="list-style-type: none"> • Identification of income streams • Invoice raising • Debt collection and recovery
A.3	Creditors	10			X		<ul style="list-style-type: none"> • Order and invoice process • Payments process • Creditor system outputs
A.4	Payroll	10			X		<ul style="list-style-type: none"> • Changes to standing data • Payment process • Expenses and flexi time • System integrity
A.6	Collection Fund	10		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.7	Cash Collection and Establishment Visits	10	X				<ul style="list-style-type: none"> • Safeguarding of cash • Banking procedures • Recording of income Review to include spot checks of cash collection sites (including cash balancing) to address issues with cash security in 10/11

A.8	Treasury Management	5		X		<ul style="list-style-type: none"> Corporate treasury activities are monitored and controlled Reporting and monitoring of treasury management activities 	
A.9	Housing Benefits	10			X	<ul style="list-style-type: none"> Benefits processing Payment of benefits Overpayments Fraud prevention 	
A.10	Fixed Assets	10			X	<ul style="list-style-type: none"> Asset Movement controls Management of Capital Programme Effectiveness of new Register 	
A.12	Car Parking	To be covered as part of income stream review					
A.13	Housing Rents	5			X	<ul style="list-style-type: none"> Rent collection accounting and banking arrangements Arrears management and performance 	
A.14/5	Risk Management and Performance Reporting	15			X	<ul style="list-style-type: none"> Policies and Procedures Reporting and Monitoring of risk Risk Identification Embedding Risk Management Use of Corvu Software Data Quality Spot Checks Rationalisation of Performance Indicators 	
	TOTAL	105					
B Department Level							
B.2	Law and Governance – Transparency Agenda	5		X		<ul style="list-style-type: none"> Freedom of Information Environmental Searches Disclosure of Expenditure 	
B.4	Housing and Communities – Homelessness	5		X		<ul style="list-style-type: none"> Homelessness application and allocation processes Budget management of homelessness costs 	
B.7 / B.11 / B.3	Income Stream review	15			X	<p>Income stream review to cover controls and processes around:</p> <ul style="list-style-type: none"> Car Parking Trade Waste Commercial Property 	
B.11	Finance – Budgetary Control	10			X	<ul style="list-style-type: none"> Robustness of monitoring processes Action plans to deliver savings and efficiencies 	
B.11	Finance – Year end accounts support	10				X	<ul style="list-style-type: none"> Year end accounts support
B.12	Business Improvement - Procurement	5			X	<ul style="list-style-type: none"> Procurement processes Use of CAATS to map transactions and establish trends and potential VFM areas 	

B.13	ICT	25	X	X	X	X	Potential areas to cover: <ul style="list-style-type: none"> • Project governance • Information governance training • Security Patching • County Council Contract VFM • Management of Active Directory A full risk assessment for IT will be carried out in Q1
	TOTAL	75					
VE Value Enhancement							
VE. 1	Contract Assurance	10		X			Use of contract assurance experts to investigate VFM within key contracts. Potential contracts to consider include: <ul style="list-style-type: none"> • Leisure • Buildbase • Waste
VE. 2	Project Governance	5				X	Follow up review of Performance Management processes reviewed in 2010/11
VE. 3	Fraud Awareness Training	5		X			Fraud Awareness training
VE. 4	HRA Reform	10		X			Assessment of the effectiveness of HRA reform and critical review of Capital Programme/Business Plan
	TOTAL	35					
PM Project Management							
PM 1	Follow up	10		X	X	X	X
PM 2	Audit Management	30		X	X	X	X
	TOTAL	40					
TOTAL PROPOSED DAYS		250					

Appendix 1: Corporate Objectives and Risks

These corporate level objectives have been determined by you in your draft “Oxford City Council Corporate Plan 2011-2015”

Objective	Cross reference to Internal Audit Plan (see Section 4)
A vibrant and sustainable economy	This objective is not directly addressed in year. All departments addressing this objective will be rotated in line with our risk based approach
Meeting housing needs	B.4 - Housing and Communities – Homelessness and VE. 4 HRA Reform
Stronger and Active Communities	This objective is not directly addressed in year. All departments addressing this objective will be rotated in line with our risk based approach
Cleaner greener Oxford	B.7 - Income streams – Trade Waste
An efficient and effective council	All of our cross cutting process reviews address this objective along with the following discrete reviews: <ul style="list-style-type: none"> • B.2 - Law and Governance - Transparency Agenda • VE. 1 - Contract Assurance B. 12 - Business Improvement - Procurement

We have reviewed your corporate risk register and linked all current rated as high (current score of 8) to our audit plan as follows:

Risk	Cross reference to Internal Audit Plan (see Section 4)
CRR011- Community Cohesion	Risk not deemed to directly affect the audit plan. We will continue to invite you as our clients to knowledge management events and distribute material produced by our Public Sector Research Centre to enable the Council to understand pronouncements in these areas to mitigate against these risks
CRR003 – One organisation approach	A.2 &3 – Debtors and Creditors

CRR005 – Financial Reporting

B.11 - Finance – Year end accounts support

SRR006OCH – Housing Reform

VE.4 HRA Reform

SRR001/4CHCD – Increased Homelessness

B.4 - Housing and Communities – Homelessness

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