

Internal Audit Risk Assessment and Plan 2015/16

DRAFT for Discussion

Oxford City Council

April 2015

DRAFT

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Distribution List

For action	Members of the Audit and Governance Committee
For information	Corporate Management Team
	Heads of Service

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

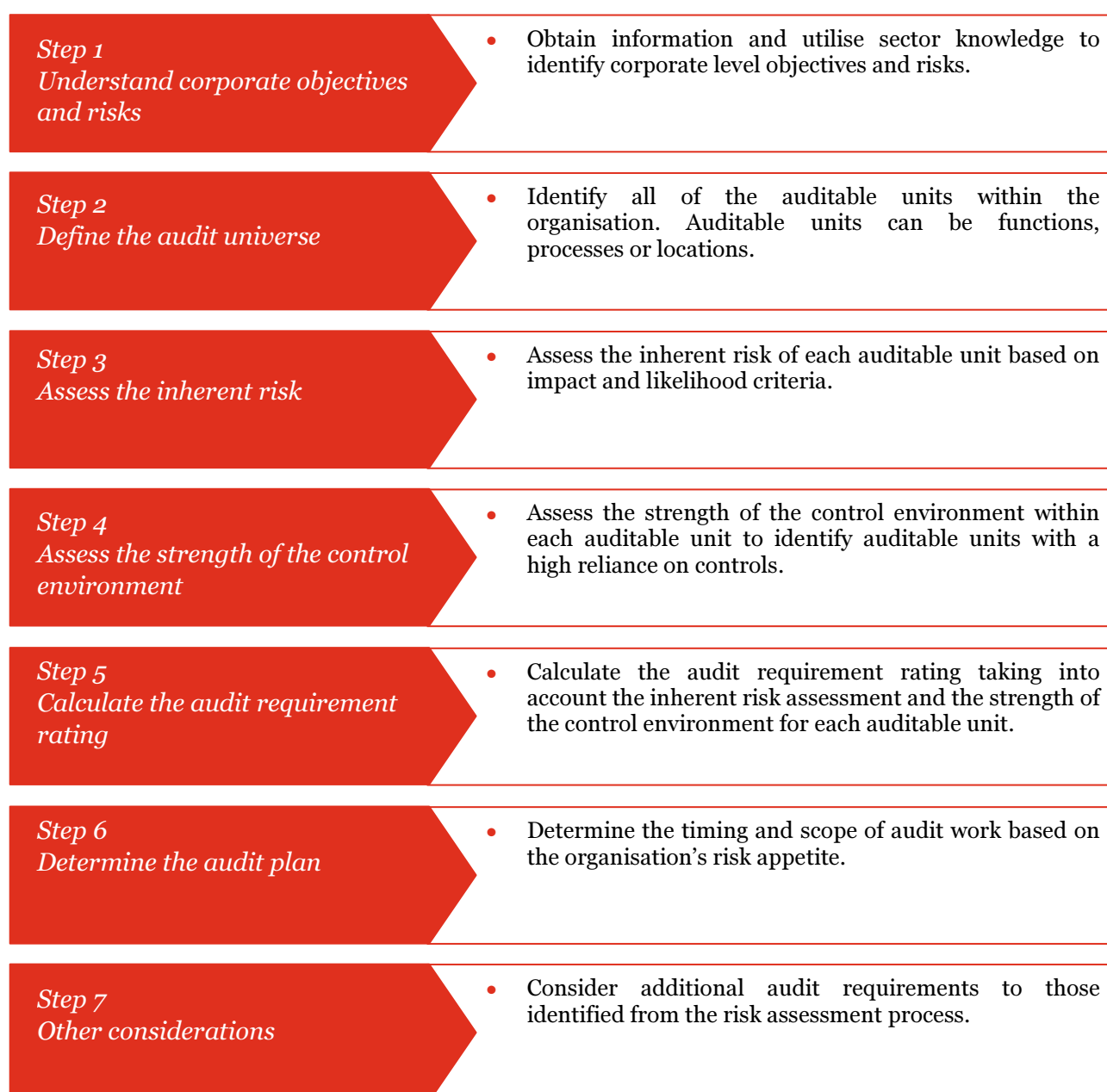
1. Introduction and approach

Introduction

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



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 Oxford City Council's internal audit service is 235 days at rates set out in our contract. 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.

We have developed the audit plan for the full year to 31 March 2016, but our contract to deliver internal audit services concludes in July 2015. The Council is likely to commence a competitive tender process for Internal Audit services for the period from 1 October 2015. We will complete internal audit reviews under the existing contract arrangements until this time.

Delivery

The internal audit service comprises a number of reviews. Each review addresses one or more risks or systems, and is scoped to identify the relevant controls and monitoring, and then to test their operation.

There is a "Protocol" for the delivery of the internal audit service which establishes responsibilities of auditors and auditees, covering the whole process from agreeing terms of reference to implementation of recommendations. This is shared with each auditee at the first point of contact, and has been attached to the Internal Audit Charter which is a separate document that we update and present to the Audit and Governance Committee on an annual basis.

Reporting

We recognise that it is essential that reports are produced and monitored in a timely and effective manner. Formal reports will be produced for each review identified in our internal audit plan, unless an alternative deliverable is agreed. Following completion of fieldwork, findings will be discussed at a clearance meeting with the audit sponsor and reports will be produced in line with the final report grading and circulation arrangements, as set out in the Internal Audit Charter.

Final reports receiving a risk classification of "Medium Risk" or above will be sent to the Audit and Governance Committee, along with a progress report which will summarise the work performed since the previous Committee meeting, and will highlight any areas of weakness and high priority recommendations.

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.

The other sources of assurance for Oxford City Council are as follows:

- External audit work;

- External inspections and awards;
- ISO accreditations; and
- The outcomes of previous internal audit reviews.

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, Job Title</i>	<i>Name, Job Title</i>	<i>Name, Job Title</i>
<i>Organisational Development and Corporate Services</i>	<i>Community Services</i>	<i>City Regeneration and Housing</i>
Jackie Yates, Executive Director	Tim Sadler, Executive Director	David Edwards, Executive Director
Simon Howick, Head of Human Resources and Facilities	Graham Bourton, Head of Oxford Direct Services	Jane Winfield, Regeneration and Major Projects Team
Jeremy Thomas, Head of Law and Governance (Monitoring Officer)	Ian Brooke, Head of Leisure, Parks and Communities	Stephen Clarke, Head of Housing and Property
Helen Bishop, Head of Customer Services	Nathan Vear, Interim Head of Environmental Development	Michael Crofton-Briggs, Head of City Development
Nigel Kennedy, Head of Finance (Section 151 Officer)	Val Johnson, representing Peter McQuitty, Head of Policy, Culture and Communications	
Jane Lubbock, Head of Business Improvement and Technology		

2. Audit universe, corporate objectives and risks

Audit universe

We have identified the auditable units within the Council based on the Council's 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 Oxford City Council. The corporate level objectives and risks have been considered when preparing the internal audit plan and have been mapped to the auditable units.

The corporate level objectives as documented in the "Corporate Plan 2013-17" are recorded in the table below.

<i>Objective</i>	<i>Cross reference to Internal Audit Plan (see Section 4)</i>
Vibrant, Sustainable Economy: A strong local economy, supported by effective education and training centre.	B5. Property Management - Investment properties VE.2 Trading Services
Meeting Housing Needs: More affordable, high quality housing in Oxford. This is essential for the vibrancy of the economy and the health and well-being of residents.	A3. Housing Benefits A4. Housing Rents B2. Housing Allocations B3. Homelessness Prevention
Strong, Active Communities: Communities that are socially cohesive and safe, and citizens who are actively engaged in pursuing their own well-being and that of their communities.	VE3. Law & Governance - Member Support Services
Cleaner, Greener Oxford: A cleaner, greener Oxford: in the city centre, in our neighbourhoods and in all public spaces.	VE.5 Enforcement
Efficient, Effective Council: A flexible and accessible organisation, delivering high-quality, value-for-money services.	All of our cross cutting process reviews address this objective along with reviews in the following areas: <ul style="list-style-type: none"> B4. Business Improvement & Technology - System Integration VE4. Procurement

We have also reviewed the Corporate Risk Register presented to the Audit and Governance Committee on 26 February 2015 and linked all risks with an assessment of Amber or Red to our audit plan.

<i>Risk(s) to the achievement of objectives</i>	<i>Cross reference to Internal Audit Plan (see Section 4)</i>
CRR-029 Managerial Capacity: Managers become overstretched lose sight and focus on service delivery and performance suffers	VE.2 Trading Services
CRR-019 ICT Resilience: Resilience of ICT	B4. Business Improvement & Technology - System

<i>Risk(s) to the achievement of objectives</i>	<i>Cross reference to Internal Audit Plan (see Section 4)</i>
function managing projects and improvements alongside business as usual.	Integration
CRR-020 Robustness of Medium Term Financial Plan: MT financial plan savings not delivered and pressures not accurately	A6. Budgetary Control, Risk Management and Performance
CRR-023 Managing Capital Projects and Contract Management: The need to ensure efficient management of capital projects and contracts.	A review of the Capital Gateway process was performed in March 2014.
CRR-025 Health & Safety of People	Corporate and Housing Stock Health & Safety review was performed in 2014/15.
CRR-027 Fraud: Risk of fraud against the council	Our cross cutting and departmental value protection reviews consider and assess the controls in place to mitigate the risk of fraud.
CRR-028 Data Protection: Breach of data protection act	The Council employs an Information Management & Compliance Specialist who works with Service areas to support data protection compliance and review areas of potential risk.

3. Risk assessment

Risk assessment

Our risk assessment is based on:

- A review of the Council's risk registers;
- Consultation with a number of key stakeholders across the Council;
- A review of relevant documentation and reports;
- Our knowledge of the Council and results of Internal Audit work in 2014/15; and
- Our broader understanding of local government and the broader public sector.

Our risk assessment is limited to matters emerging from the processes listed above. We will review and update this assessment and the resulting plan annually. We will continually review the plan with management as risks emerge or change in priority and, with the approval of the Audit and Governance Committee, ensure that audit resources are appropriately focused.

A full risk assessment is included below. In order to carry out the risk assessment, we have defined all the auditable activities and processes in the Council (defined as the 'audit universe') and risk assessed each separate element of the audit universe (defined as 'auditable units') applying the methodology outlined in Appendix 1 and 2. This approach helps to ensure that we have a complete understanding of all areas in the Council which should be subject to Internal Audit and that these have been assessed on a Council-wide level.

From this risk assessment we have identified the areas that we propose to audit in 2015/16 and these have been included in the Internal Audit Plan in section 4.

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.

<i>Ref</i>	<i>Auditable Unit</i>	<i>Corporate objectives and risks</i>	<i>Inherent Risk Rating</i>	<i>Control Environment Indicator</i>	<i>Audit Requirement Rating</i>	<i>Colour code</i>	<i>Frequency</i>
A	Cross Cutting Systems						
A.1	General Ledger	Efficient, effective Council	6	4	4	●	Annual
A.2	Debtors		6	3	5	●	Annual
A.3	Creditors		6	3	5	●	Annual
A.4	Payroll		6	4	4	●	Annual
A.5	Budgetary Control		6	4	4	●	Annual
A.6	Collection Fund		6	4	4	●	Annual
A.7	Treasury Management		5	4	3	●	Every 2

<i>Ref</i>	<i>Auditable Unit</i>	<i>Corporate objectives and risks</i>	<i>Inherent Risk Rating</i>	<i>Control Environment Indicator</i>	<i>Audit Requirement Rating</i>	<i>Colour code</i>	<i>Frequency</i>
							years
A.8	Housing Benefits		6	4	4	●	Annual
A.9	Fixed Assets		6	4	4	●	Annual
A.10	VAT		3	3	2	●	Every 3 years
A.11	Housing Rents		6	4	4	●	Annual
A.12	Risk Management		6	4	4	●	Annual
B	Department Level						
	Organisational Development and Corporate Services						
B.1	Human Resources and Facilities	Efficient, effective Council	5	3	4	●	Annual
B.2	Law and Governance		5	4	3	●	Every 2 years
B.3	Customer Services		5	3	4	●	Annual
B.4	Finance		5	3	4	●	Annual
B.5	Business Improvement and Technology		5	4	3	●	Every 2 years
	Community Services						
B.6	Oxford Direct Services	Cleaner, greener Oxford	5	3	4	●	Annual
B.7	Leisure, Parks and Communities	Stronger, active communities	3	2	2	●	Every 3 years
B.8	Environmental Development	Cleaner, greener Oxford	3	2	2	●	Every 3 years
B.9	Policy, Culture and Communications	Vibrant, sustainable economy	3	2	2	●	Every 3 years
	City Regeneration and Housing						
B.10	Regeneration and Major Projects Team	Vibrant, sustainable economy	5	4	3	●	Every 2 years
B.11	Housing and Property	Meeting housing needs	5	3	4	●	Annual

<i>Ref</i>	<i>Auditable Unit</i>	<i>Corporate objectives and risks</i>	<i>Inherent Risk Rating</i>	<i>Control Environment Indicator</i>	<i>Audit Requirement Rating</i>	<i>Colour code</i>	<i>Frequency</i>
B.12	City Development	Stronger, active communities	5	4	3	●	Every 2 years

Key to frequency of audit work

<i>Audit Requirement Rating</i>	<i>Frequency – PwC standard approach</i>	<i>Colour Code</i>
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.

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	Indicative number of audit days	Indicative start dates			
			Q1	Q2	Q3	Q4
A	Cross Cutting Systems					
	Value Protection Reviews					
A.1	Finance Systems: <ul style="list-style-type: none"> Fixed Assets General Ledger Payroll 	16			4	
A.2	Debtors and Creditors <ul style="list-style-type: none"> Debtors Income Collection Creditors 	14			4	
A.3	Collection Fund (Council Tax and NNDR) <ul style="list-style-type: none"> Reconciliations Calculation of liabilities Billing process Debt collection and recovery Arrangements for changes in legislation Uptake of online payment options for CT and BR 	12		4		
A.4	Housing Benefits <ul style="list-style-type: none"> Reconciliations Accuracy of claims and Quality checks Overpayments – monitoring and recovery Uptake of online payment options for HB overpayments 	10		4		
A.5	Housing Rents <ul style="list-style-type: none"> Reconciliations Collection, recovery, arrears management Uptake of online payment options 	10		4		
A.6	Budgetary Control, Risk Management and Performance Budgetary control: <ul style="list-style-type: none"> Budget setting Budget monitoring (Revenue and Capital accounts) Management and monitoring of efficiency savings and income collection/generation activities Risk management and performance: <ul style="list-style-type: none"> Review of risk management arrangements for adequacy Use of performance monitoring software 	12				4
Sub Total		74	-	32	30	12

Ref	Auditable Unit	Indicative number of audit days	Indicative number of audit days			
			Q1	Q2	Q3	Q4
B	Department Level					
	Value Protection Reviews					
B.1	Finance – Year End Support <ul style="list-style-type: none"> Year end accounts support in May 2016. 	5				[4]
B.2	Housing & Property - Housing Allocations <ul style="list-style-type: none"> Housing is allocated in line with the Council’s policy and procedures Rigour of evidence to support awards and defend decisions in light of growing scrutiny Applicant’s identity is verified at initial stage of application Performance reporting 	12	4			
B.3	Housing & Property - Homelessness Prevention <ul style="list-style-type: none"> Controls around management of emergency housing placements for statutory homeless with private landlords Payments to landlords, rent guarantees, Equity between rent guarantee scheme and DHP and how it can be achieved in particular with regard to incentives Payments for dilapidations Landlord accreditation scheme 	10				4
B.4	Business Improvement & Technology - System Integration <ul style="list-style-type: none"> IT security controls around interfaces between systems e.g. Academy & Agresso Review to assess status across Council and focus on older systems 	12			4	
B.5	Property Management - Investment properties <ul style="list-style-type: none"> Management of investment properties, lease renewals, rent setting, collection and recovery. Valuations Consideration of implications for asset management strategy 	10	4			
	Sub Total	49	22	-	12	15
V	Value Enhancement Reviews					
VE.1	Finance - Year end financial reporting timetable <ul style="list-style-type: none"> The accounts publication date for principal bodies is to be brought forward from 30 September to 31 July for the 2017/18 accounts onwards. The 14/15 year end close is being done for a 31/5/15 deadline as a trial. Review effectiveness of this and identify lessons learned. Provide insight into best practice from other Council’s that achieve early close 	10	4			
VE.2	Trading Services (including DSO) <ul style="list-style-type: none"> Increasing move towards trading Council services. Assess robustness of contracting arrangements, overhead calculations and recharge mechanisms, restriction clauses Adequacy of due diligence processes prior to entering contracts Consistent processes across the Council for award of contracts Contract performance monitoring arrangements and variations Client management, processes for feedback, complaints & dispute resolution, managing reputational issues Processes for billing and debt collection 	16		4		

Ref	Auditable Unit	Indicative number of audit days	Indicative number of audit days			
			Q1	Q2	Q3	Q4
VE.3	Law & Governance - Member Support Services <ul style="list-style-type: none"> Adequacy of Council services, within the available budget, for providing administrative support and information services to Councillors to enable them to be effective within their roles. Best practice training for Members Review implementation of “Members Guarantee” improvement plan 	7				4
VE.4	Procurement <ul style="list-style-type: none"> Monitoring overall process, timeliness and efficiency Best practice insight 	12	4			
VE.5	Enforcement <ul style="list-style-type: none"> Enforcement decisions are made in accordance with the Constitution delegated powers to authorise enforcement action. Staff have appropriate qualifications, competence and experience as authorised under the relevant legislation to carry out enforcement functions. Robustness of evidence to support decisions Environment, licences, planning 	12				4
	Sub Total	57	22	16	-	19
	20/15/16 Sub Total	180	44	48	42	46
	Recommendation follow-up: prior year recommendations are followed up in our annual VP reviews. Other follow-up is performed by management.	-				
	Audit Management	40	4	4	4	4
	Contingency	15	4	4	4	4
	2015/16 Total	235				

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 quarterly to the Audit and Governance 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 Corporate Plan 2013-17 and Strategic 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 Oxford City 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 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 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 (materiality); 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 (materiality/2); 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 (materiality/4); 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 (materiality/8); 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 (materiality/16); 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 (materiality/32); 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 and Governance Committee and management, we have proposed the following key performance indicators.

<i>KPI</i>	<i>Target</i>	<i>Responsible</i>
Infrastructure		
Audits budgeted v actual	100%	Internal Audit
Planning		
Percentage of audits with Terms of Reference	100%	Internal Audit
Audit sponsor contacted	No less than 4 weeks before the start of audit fieldwork	Internal Audit
Meeting between Audit Sponsor and Internal Audit to agree scope of review	No less than 3 weeks before the start of audit fieldwork	Internal Audit and Audit Sponsor
Draft scope issued to Audit Sponsor and Head of Service for agreement	No less than 2 weeks before the start of audit fieldwork	Internal Audit
Fieldwork		
Exit meeting to confirm matters arising from the audit.	No more than 1 week after the completion of fieldwork	Internal Audit and Audit Sponsor
Reporting		
Initial draft report issued to Audit Sponsor, Head of Service, Executive Director, Head of Finance, Executive Director Organisational Development and Corporate Services and other agreed stakeholders	No more than 2 weeks after exit meeting	Internal Audit
Report finalised, and circulated.	No more than 1 week after final draft report has been issued.	Internal Audit
Attendance at Audit and Governance Committee	100%	Internal Audit



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