

*Risk Assessment and
Internal Audit Plan
2012/2013*

Oxford City Council
March 2012

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Contents

1. Introduction and approach	1
2. Risk assessment	3
3. Annual plan and internal audit performance	6
Appendix 1: Detailed methodology	10
Appendix 2: Risk assessment criteria	12
Appendix 3: Corporate objectives and risks	13

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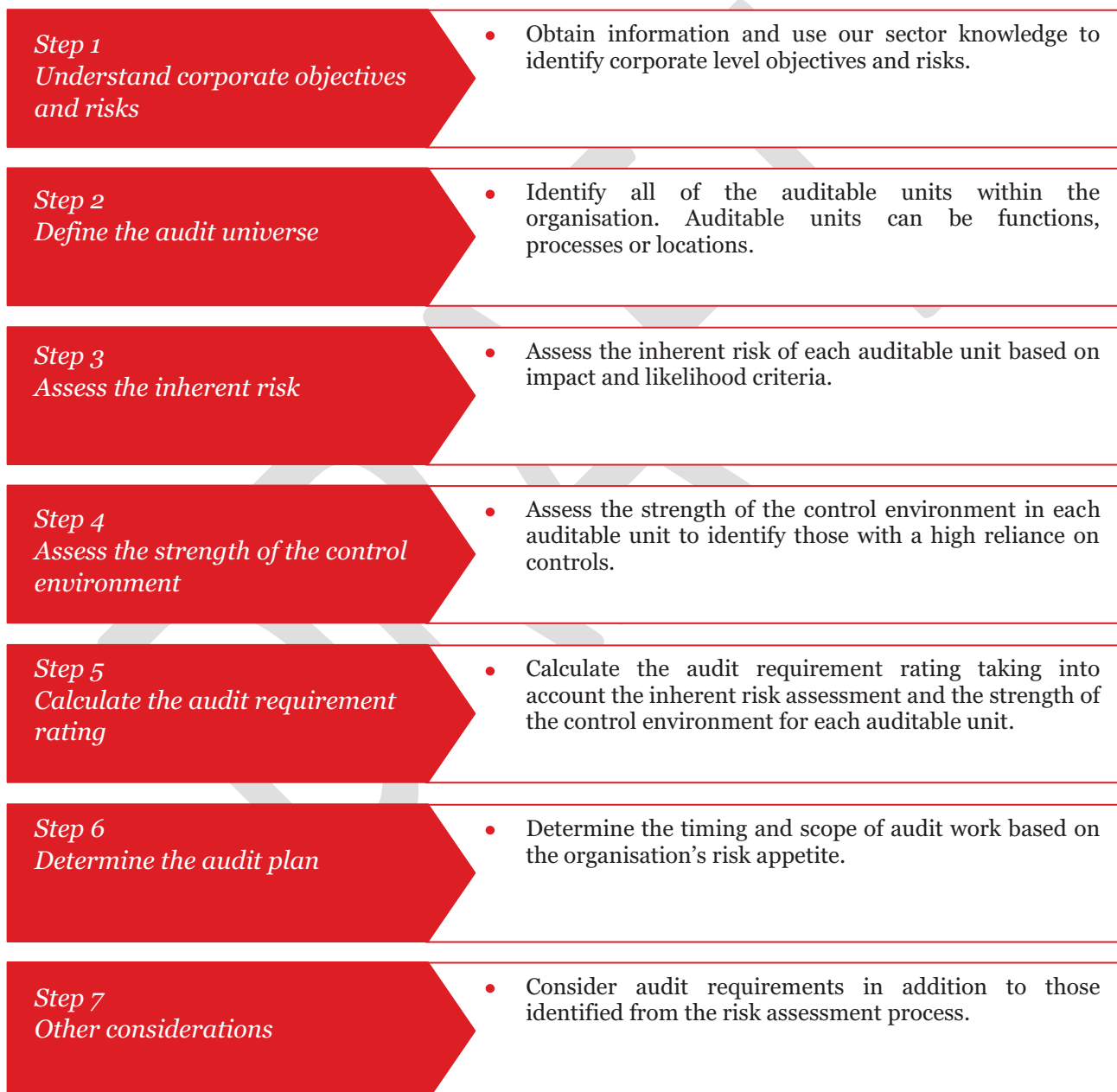
1. Introduction and approach

Introduction

This document sets out the risk assessment and our internal audit plan for Oxford City Council.

Approach

A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. A more detailed description can be found in Appendices 1 and 2.



Key contacts

Meetings have been held with Heads of Service and the Corporate Management Team as part of the planning process, and we have consulted the Chairman of the Audit and Governance Committee 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.

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.

Scope of our plan

We discuss the resources available for the internal audit service with officers, and a budget of 220 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 and Governance 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 CIPFA Code of Practice for Internal Audit in Local Government, which is 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.


2. 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	Frequency
A	Cross cutting processes						
A.1	General Ledger	An efficient and effective Council	6	4	4	●	Every year
A.2	Debtors		6	4	3	●	Every year
A.3	Creditors		6	3	5	●	Every year
A.4	Payroll		5	4	3	●	Every two years
A.5	Budgetary Control		6	4	4	●	Every year
A.6	Collection Fund		6	4	4	●	Every year
A.7	Cashiers		5	4	3	●	Every two years
A.8	Treasury Management		5	4	3	●	Every two years
A.9	Housing Benefits		6	4	4	●	Every year
A.10	Fixed Assets		6	3	5	●	Every year
A.11	VAT		3	2	2	●	Every three years
A.12	Car Parking		6	4	4	●	Every year
A.13	Housing Rents		6	4	4	●	Every year

A.14	Governance		6	4	4	●	Every year
A.15	Risk Management		6	4	4	●	Every year
B	Department Level						
B.1	People and Equalities	An efficient and effective Council	5	3	4	●	Every year
B.2	Law and Governance	An efficient and effective Council	5	3	4	●	Every year
B.3	Corporate Assets	A vibrant and sustainable economy	6	3	5	●	Every year
B.4	Housing and Communities	Meeting housing needs	6	4	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	6	4	4	●	Every year
B.8	Environmental Development	Cleaner greener Oxford	3	2	2	●	Every three 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	6	3	5	●	Every year
B.11	Finance	An efficient and effective Council	6	4	4	●	Every year
B.12	Business Improvement	An efficient and effective Council	6	4	4	●	Every year

B.13	ICT Strategy	An efficient and effective Council	6	3	5		Every year
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Key to frequency of audit work

Audit Requirement Rating	Frequency – standard approach	PwC	Colour Code
6	Annual		
5	Annual		
4	Annual		
3	Every two years		
2	Every three years		
1	No further work		

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 220 days does not allow us to carry out audits on all systems at the frequency which our methodology suggests, and we have flexed the frequency to meet the budget. The following systems/departments will be audited less frequently than our methodology suggests:

- Cashiers
- Treasury Management
- VAT
- Housing Rents
- City Development
- Policy, Culture and Communications
- Environmental Development; and
- Leisure and Parks

The Audit and Governance Committee should satisfy itself that this provides the assurance it requires.

3. Annual plan and internal audit performance

Annual plan and indicative timeline

The following table sets out the internal audit work planned for 2012/13 together with indicative start dates for each audit.

Ref	Auditable Unit	Indicative number of audit days	Indicative number of audit days				Comments
			Q1	Q2	Q3	Q4	
A	Cross Cutting Systems						
A.1	General ledger	5		X			<ul style="list-style-type: none"> Key control account reconciliations Input and output controls System enhancements System integrity
A.2	Creditors	5			X		<ul style="list-style-type: none"> Order and invoice process Payments process Creditor system outputs
A.3	Budgetary Control and Efficiency Savings	5			X		<ul style="list-style-type: none"> Budget setting Budget monitoring Management and monitoring of efficiency savings
A.4	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 Exceptions System integrity
A.5	Housing Benefits	5			X		<ul style="list-style-type: none"> Benefits processing Payment of benefits Quality checking Move to universal benefit
A.6	Fixed Assets	5				X	<ul style="list-style-type: none"> Asset Movement controls Management of Capital Programme Early substantive testing
A.7	Car Parking	5	X				<ul style="list-style-type: none"> Cash Collection Accounting for income Excess charge notice processes
A.8	Governance	2				X	Internal audit to perform testing of risk based areas of the Annual Governance Statement
A.9	Risk Management and Performance	10			X		<ul style="list-style-type: none"> Policies and Procedures Reporting and Monitoring of risk

							<ul style="list-style-type: none"> • Risk Identification • Embedding Risk Management • Use of Performance Monitoring Software • Integrated reporting
A.10	Debtors	5				X	<ul style="list-style-type: none"> • Raising sales orders • Billing processes • Debt Collection and Recovery • Accounting for debtors
A.11	Payroll	5				X	<ul style="list-style-type: none"> • Starters and Leavers • Amendments to payroll • Processing payroll • Accounting for payroll
	TOTAL	62					
B	Department Level Reviews						
B.1	Finance – Fixed Asset Register Implementation	5				X	<ul style="list-style-type: none"> • Procurement of new system • Completeness of transferred information • Testing of accuracy of upload
B.2	Finance – Year end Support	5				X	Year end accounts support
B.3	Finance – Insurance	5				X	<ul style="list-style-type: none"> • Policies and procedures • Processing of claims • Performance monitoring and accounting for claims • Integration with risk management
B.4	Corporate Assets – Commercial Property Follow Up	5				X	<ul style="list-style-type: none"> • Reconciliation of properties • Billing • Recovery of income
B.5	Housing and Communities – Northgate Testing	5				X	<p>Performance of CAATs on data held within Northgate to identify potential duplicates in the following areas:</p> <ul style="list-style-type: none"> • Properties • People • Tenants
B.6	Housing and Communities – Direct Payments	7				X	<ul style="list-style-type: none"> • Application process • Processing of income and rents • Compliance checks
B.7	Business Improvement – Data Quality	8				X	<ul style="list-style-type: none"> • Review of compilation method for a sample of performance indicators • Testing of supporting data for indicators
B.8	Direct Services – Garden Waste	5				X	<ul style="list-style-type: none"> • Processing of applications • Raising and collection of income • Accounting for Garden Waste income
B.9	Law and	5				X	<ul style="list-style-type: none"> • Completeness of business continuity

	Governance – Business Continuity						<ul style="list-style-type: none"> plans • Robustness of plans and procedures • Communication • Testing of plans
B.10	ICT Strategy – Windows Licensing	13	✗	✗			<ul style="list-style-type: none"> • Contract rates of new licenses – Value for Money achieved • Due Diligence processes • Resourcing of project • Methodology of project implementation
B.11	ICT – Lagan Post Implementation and Benefits Realization	10		✗			Post implementation review and assessment of benefits achieved from the implementation of the Lagan system.
B.12	People and Equalities – Health and Safety	5	✗				<ul style="list-style-type: none"> • Health and Safety Policies • Processing of claims • Health and Safety Assessments • Communication
	TOTAL	78					
VE	Value Enhancement						
VE.1	Law and Governance – Member Development	10			✗		<ul style="list-style-type: none"> • Member training arrangements • Training events • Skills audit
VE.2	Direct Services – Transport Services VfM and Trading Services	10	✗				<p>Assistance with the value for money project on transport services to consider:</p> <ul style="list-style-type: none"> • Capacity of resource • Vehicle replacement programme and ownership profile • Benchmarking of costs • Insurance arrangements and value for money • Charging and trading arrangements
VE.3	Business Improvement – P2P Implementation	10	✗	✗			<p>Critical friend review of business plans and project implementation plans for this new system to ensure they are consistent with project management guidance and are fit for purpose.</p> <p>These days may be utilised for attendance at project boards.</p>
VE.4	Fraud Risk Assessment	5	✗				Fraud risk assessment diagnostic to identify areas of risk and controls in place to prevent and detect fraud.
VE.5	People and Equalities – Policy Review	10				✗	<p>Specialist review of policies and procedures. Areas for consideration include:</p> <ul style="list-style-type: none"> • Organisational Development • Workforce Planning

VE.6	Corporate Asset – Asset Management Strategy	5	X				Critical friend review of asset management strategy to ensure it rationalizes the Council's asset base and ensures value is secured from assets.
	TOTAL	50					
	Follow up	5	X	X	X	X	-
	Audit Management	25	X	X	X	X	-
	TOTAL	220					-
	2011/12 Roll Forward						-
RF.1	Repairs and Maintenance	4	X				<ul style="list-style-type: none"> • Review of organisational brief for structure of function • Testing of accuracy of a sample of repairs and maintenance data
RF.2	Project Management	5	X				<ul style="list-style-type: none"> • Critical friend support on designated project

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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 and Strategic Risk Register;
- Drawn on our knowledge of Local Government and
- Met with a number senior management and 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 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 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.

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: Corporate objectives and risks

Objective	Cross reference to Internal Audit Plan (see Section 3)
A vibrant and sustainable economy	B.4 Corporate Assets – Commercial Property Follow Up VE.6 Corporate Asset – Asset Management Strategy
Meeting housing needs	B.5 Housing and Communities – Northgate Testing RF.1 Repairs and Maintenance
Strong 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	VE.2 Direct Services – Transport Services VfM B.8 Direct Services – Garden Waste
An efficient and effective Council	All of our cross cutting process reviews address this objective along with reviews in the following areas: <ul style="list-style-type: none"> • Finance • Business Improvement • Law and Governance • ICT Strategy

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

We have reviewed your corporate risk register and linked all current rated as high to our audit plan as follows

Risk	Cross reference to Internal Audit Plan (see Section 3)
CRR-013: Changes in housing benefit and universal housing benefit	A.5 - Housing Benefits
CRR -014: That the self financing regime is difficult to administer and the 30 year cash flow is not favourable to the Council	This risk has been adequately addressed in prior years.
CRR0-017: The Council and other public sector bodies are cutting their services due to the CSR and this may have an impact on the services we provide.	A.3 Budgetary Control and Efficiency Savings

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