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Oxford City Council Internal Audit Risk Assessment and Plan
2013/2014

June 2013

Distribution List

Corporate Management Team

Heads of Service

Members of the Audit and Governance Committee

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

Contents

1. Introduction and Approach

Introduction

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

Our approach is tailored to the Council and complies with Public Sector Internal Audit Standards (that came into effect from 1 April 2013) and the Institute of Internal Auditors' guidance on risk based internal auditing (2005).

Key contacts

Meetings have been held with Heads of Service and the Senior Management Team as part of the planning process, and we have consulted Ernst & Young (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. This process is described in more detail in Section 2.

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.

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 new 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

We comply with the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) but are not designed or intended to conform to the International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board.

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.

Delivering value through our approach

As your control environment matures and you continue on the path 'from Good to Great', we would also expect for the type of review needed to change and develop. Over time, we would expect to therefore increase the amount of time dedicated to advisory reviews and decrease our emphasis on financial control work.

Our approach focuses on two types of review, Value Protection (VP) and Value Enhancement (VE) as illustrated in the diagram below. VP provides a review of your current governance, risk management and control arrangements, which constitutes a traditional controls assurance methodology. VE is focused on assessing future risks, such as looking at your new projects / systems and improving your performance, by, for example, identifying opportunities for efficiency gains, saving money and improving quality. The nature of value protection and value enhancement is illustrated below:
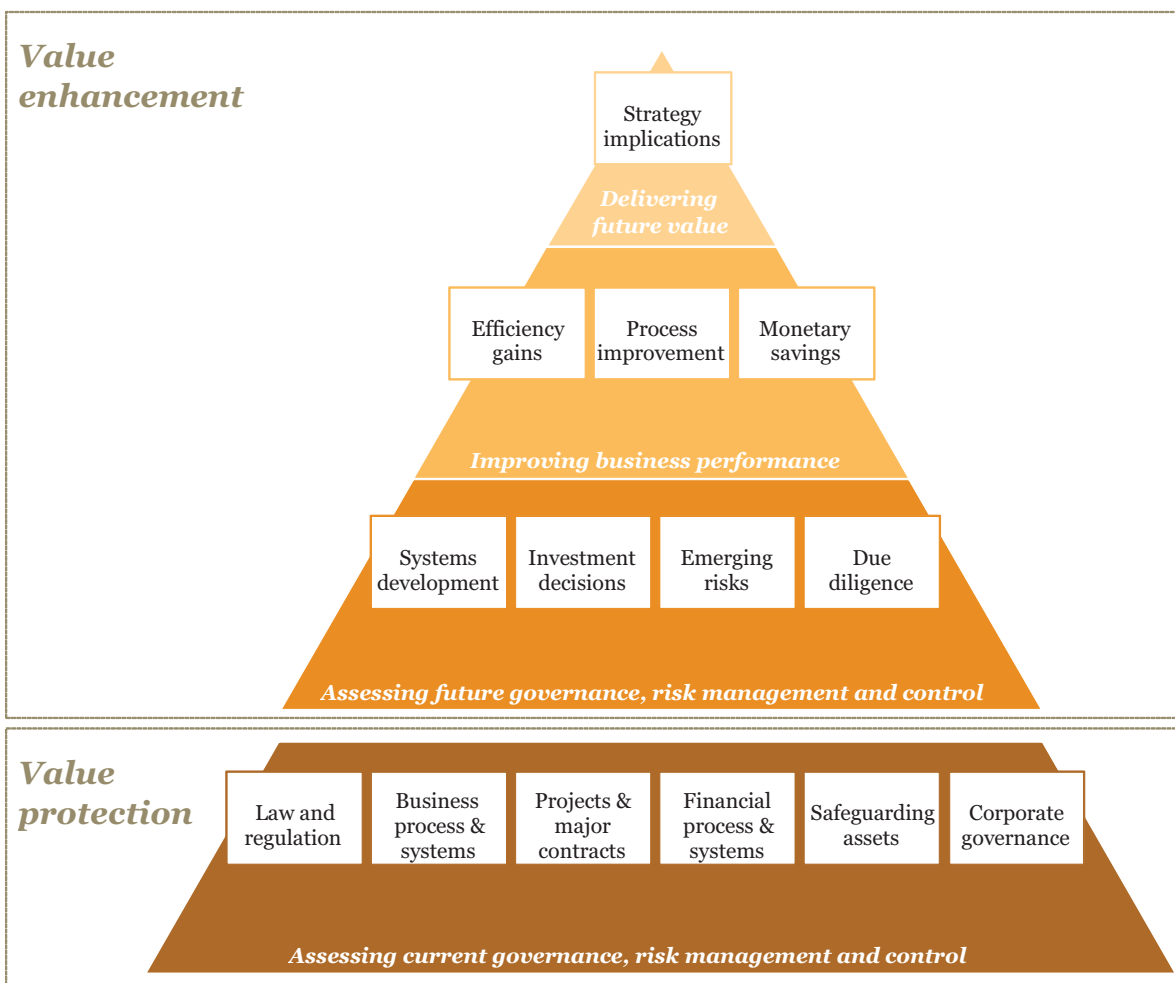
Value protection

You need assurance on your core systems. We maximise audit efficiency by working with your external auditors, Ernst & Young LLP. We will meet to agree how external audit can rely on our work and we will include necessary core system reviews in the plan. We will also communicate risk areas and issues identified from our respective review work so that our approach is co-ordinated to address risks identified.

Value enhancement

Risk based work is critical to Oxford City Council, as it improves risk awareness and overall control. Our work programme is designed to ensure the significant risks identified in your risk register are managed effectively. As part of this process we will assess your risk management framework and governance. Internal audit provides a valuable role in improving business performance and delivering future value. We use our broader specialist skills and experience to help the Council to achieve its aims and objectives.

An element of the internal audit plan will always remain focussed on fundamental processes; we intend to increase the proportion of our plan supporting you to improve your business performance in areas such as efficiency gains, process improvements and delivering savings.

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.

Step 1
Understand corporate objectives and risks
- Obtain information and utilise sector knowledge to identify corporate level objectives and risks.

Step 2
Define the audit universe
- Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.

Step 3
Assess the inherent risk
- Assess the inherent risk of each auditable unit based on impact and likelihood criteria.

Step 4
Assess the strength of the control environment
- Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.

Step 5
Calculate the audit requirement rating
- Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.

Step 6
Determine the audit plan
- Determine the timing and scope of audit work based on the organisation's risk appetite.

Step 7
Other considerations
- Consider additional audit requirements to those identified from the risk assessment process

2. *Risk Assessment*

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.

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.

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. The results are summarised in the table below.

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 2012/13; 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 3. 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 risk assessed on a Council-wide level.

From this risk assessment we have identified the areas that we propose to audit in 2013/14 and these have been included in the Internal Audit Plan in the following section.

Auditable Unit	Corporate objectives and risks	Inherent Risk Rating (1 = lowest risk)	Control Environment Indicator (6 = strongest controls	Audit Requirement Rating	Colour code	Frequency
A - Cross cutting processes						
General Ledger	Efficient, effective Council	6	4	4	●	Every year
Debtors		6	3	5	●	Every year
Creditors		6	3	5	●	Every year
Payroll		6	4	4	●	Every year
Budgetary Control		6	4	4	●	Every year
Collection Fund		6	4	4	●	Every year
Cashiers		6	4	4	●	Every year
Treasury Management		5	4	3	●	Every two years
Housing Benefits		6	4	4	●	Every year
Fixed Assets		6	4	4	●	Every year
VAT		3	3	2	●	Every three years
Car Parking		5	4	3	●	Every two years
Housing Rents		6	4	4	●	Every year
Governance		6	4	4	●	Every year
Risk Management		6	4	4	●	Every year
B - Department Level						
Human Resources and Facilities	Efficient, effective Council	5	4	3	●	Every two years
Law and Governance	Efficient, effective Council	5	4	3	●	Every two years
Corporate Assets	Vibrant, sustainable economy	5	4	3	●	Every two years

Housing	Meeting housing needs	5	4	3	●	Every two years
City Development	Stronger, active communities	3	2	2	●	Every three years
Policy, Culture and Communications	Vibrant, sustainable economy	3	2	2	●	Every three years
Oxford Direct Services	Cleaner, greener Oxford	5	4	3	●	Every two years
Environmental Development	Cleaner, greener Oxford	3	2	2	●	Every three years
Leisure and Parks	Stronger, active communities	3	2	2	●	Every three years
Customer Services	Efficient, effective Council	4	3	3	●	Every two years
Finance	Efficient, effective Council	5	4	3	●	Every two years
Business Improvement and Technology	Efficient, effective Council	5	4	3	●	Every two years

Key to frequency of audit work

Audit Requirement Rating	Colour Code	Timescale	Description
6, 5 and 4	●	Every year	A review of processing and monitoring control design and operating effectiveness
3	●	Every two years	A review of the design and operating effectiveness of monitoring controls
2	●	Every three years	A review of the adequacy of breadth of monitoring controls and analytical review of the output of monitoring controls.
1	●	No further work	n/a
	●●		Key sub-process audits

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:

- Policy, Culture and Communications

- Housing

- Leisure and Parks

- Customer Services

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

3. *Internal Audit Plan and Indicative Timeline*

Internal Audit 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	Q1	Q2	Q3	Q4	Comments
A	**Cross Cutting Systems**						
Value protection reviews							
A.1	Debtors and Creditors	14			✔		Debtors • Raising sales orders • Billing processes • Debt Collection and Recovery • Accounting for debtors • Controls to manage the introduction of direct payments • IT based testing (CAATs) and reporting of transactions against controls Creditors • Order and invoice process • Payments process • Creditor system outputs • Benefits realisation post implementation of P2P • IT based testing (CAATs) and reporting of transactions against controls
A.2	Collection Fund	10		✔			Processes review to include: • Calculation of liabilities • Billing processes • Debt Collection and Recovery • Exceptions • System integrity
A.3	Housing Benefits	7			✔		• Benefits processing • Payment of benefits • Quality checking • Processes for implementing legislative changes regarding under-occupancy

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Ref	Area	No.					Description
A.4	Fixed Assets and General Ledger	12		✔	✔		**Fixed Assets** • Asset Movement controls • Management of Capital Programme • Early substantive testing • IT based testing (CAATs) and reporting of transactions against controls **General Ledger** • Key control account reconciliations • Input and output controls • System enhancements • System integrity • IT based testing (CAATs) and reporting of transactions against controls
A.5	Budgetary control, Risk Management and Performance	15			✔		**Budgetary control and efficiency savings** • Budget setting • Budget monitoring • Management and monitoring of efficiency savings **Risk Management and Performance** • Policies and Procedures • Reporting and Monitoring of risk • Risk Identification • Embedding Risk Management • Use of Performance Monitoring Software • Use of increased functionality and access of integrated reporting
A.6	Governance	2				✔	• Risk based review of the Annual Governance Statement
A.7	IT General Controls	7		✔			• Agresso applications testing • Academy applications testing • Access and change/permission controls testing • Other requests from External Audit
A.8	Fraud Risk Assessment	6		✔			• Fraud risk assessment diagnostic to identify areas of risk and controls in place to prevent and detect corporate fraud. • Future needs assessment for benefits fraud given possible changes to the DWP Central Fraud Team
Value enhancement reviews							
A.9	Cash and card payments	10		✔			• Are plans for becoming cash free robust? • Are existing controls around cash adequate? • Are existing controls around card payments adequate? • How can they be improved for future proofing?
A.10	Grant payments	7				✔	• Review of approval arrangements for grants made by the Council • Are controls over payments adequate? • Are they being adhered to?

	Subtotal	**90**					
B	**Department Level Reviews**						
Value protection reviews							
B.1	Finance – Year end Support	5				[✔]	Year end accounts support in June 2014
B.2	Direct Services - Car Parking	6	✔				• Cash Collection • Accounting for income • Excess charge notice processes • Credit card payment
B.3	Community Development – Community Centres and Associations	10			✔		• Review of control arrangements from Council run centres through to Social Club arrangements. • Review of funding arrangements and controls over cash • Are there adequate leading arrangements? • Are formal agreements reached over responsibilities and are these followed?
B.4	Corporate Property – Health and Safety	5			✔		• Are processes in place adequate? • Are policies being adhered to? • Is the system being kept up to date? • Are roles, responsibilities and reporting requirements clear? • Is data retention adequate?
B.5	Finance - Town Hall income	7		✔			• Review of controls under new management. • Are accounting practices robust? • Are income streams being recorded appropriately?
B.6	Business Improvement and Technology – System implementation	6	✔				• Windows 7 post implementation review • Have lessons learned from the roll out been learned? • Should process prevent disruption on future system roll outs? • *Includes liaison with County Council*
	Subtotal	**129**					
Value enhancement reviews							
VE.1	Environmental Development – Carbon budgeting	10		✔		✔	Two part review: • Phase one to focus on learning from others through sharing good practice and benchmarking information • Phase two to focus on reviewing. Improvements against the Council's plans to improve beyond scope 1 compliance.

Ref	Area	Days	Q1	Q2	Q3	Q4	Comments

VE.2	Human Resources and Facilities – Payroll including Tax, NI and compliance	16		✔		✔	Three phase review:
							• Phase one to focus on a compliance audit of Tax and NI. Review to consider the Council's approach to grossing up; to severance payments and other assumptions regarding taxable benefits.
							• Phase two to validate the compliance with auto-enrolment and real time information requirements following implementation earlier in the year.
							• Phase three to consist of a standard review of controls covering:
							  - Starters and Leavers
							  - Amendments to payroll
							  - Processing payroll

VE.3	Direct Services - Income generation through DSOs	10		✔			• Is the reporting / charging / costing appropriate? • Are quality assurance mechanisms adequate to manage the reputational risks of failing to deliver? • Are bidding and tendering processes adequate to manage the financial risks to the Council? • Is the impact on core business being managed? • Are controls around billing adequate to avoid fraud and corruption? • Are there signs that the budget is not achievable? • Has VAT been fully considered?
VE.4	Law and Governance - Temple Cowley Pool	10		✔			• Were the processes followed efficient / best practice? • Were costs incurred reasonable for the benefits gained by the Council? • What could have been done to mitigate costs further? • What skill sets does the Council need to respond to similar public interest in the future?
	SUBTOTAL	**175**					
	Follow up	5	✔	✔	✔	✔	
	Audit Management	25	✔	✔	✔	✔	
	Contingency	15	✔	✔	✔	✔	
	2013/14 SUBTOTAL	**220**					
C	**2012/13 Roll Forward**						
RF.1	Finance – Fixed Asset Register Implementation	5				✔	• Procurement of new system • Completeness of transferred information • Testing of accuracy of upload

RF.2	Corporate Asset – Asset Management Strategy	5		✔			• Independent review of the Corporate Asset Management Strategy prior to, and during, its refresh. • Are assets being rationalized? • Is the Council's securing value from its assets?
	2013/14 TOTAL	**230**					

Appendix 1: Corporate Objectives and Risks

These corporate level objectives and risks have been determined by Oxford City Council as documented in the 'Corporate Plan 2012-16':

Objective	Cross reference to Internal Audit Plan (see Section 3)
Vibrant and sustainable economy	RF.2 Asset Management Strategy
Meeting housing needs	A.3 Housing Benefits
Strong, active communities	B.3 Community Centres and Associations
Cleaner, greener Oxford	VE.1 Carbon Budgeting
Efficient, effective Council	All of our cross cutting process reviews address this objective along with reviews in the following areas: B.2 Car Parking B.5 Town Hall Income B.6 System Implementation VE.2 Payroll

The risks included in the table below are those reported within the Corporate Risk Register presented to the Audit and Governance Committee on 28 February 2013:

Risk	Cross reference to Internal Audit Plan (see Section 3)
CRR-004: Delivery of key projects = ability to deliver cross cutting projects People and the council are not developed sufficiently to make risk based decisions, carry out options appraisals. Decision making can be poor. Innovation is not encouraged, low risk appetite.	A.9 – Cash and Card Payments VE.3 Income generation through DSOs
CRR-006: Supplier Management Ability of the council to manage large contracts and to obtain best value from those contracts	VE.4 – Temple Cowley Pool B.6 – System implementation
CRR-007: Health & Safety Existence of operational risks (relating to internal as well as public concerns – property not vehicle)	B.4 Health and Safety – Corporate Property
CRR-012: Failure to achieve budget reductions over four year period Inability to achieve savings in budget	B.5 - Town Hall income VE.3 Income generation through DSOs

Changes in housing benefit and universal housing benefit increase homelessness

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 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 our 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

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 organisation 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.

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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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