

Internal Audit Risk Assessment and Plan 2016/17

DRAFT

**Hinckley and
Bosworth Borough
Council**

April 2016

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Distribution List

Members of the Finance, Audit and Performance Committee

This document has been prepared only for Hinckley and Bosworth Borough Council and solely for the purpose and on the terms agreed with the Council.

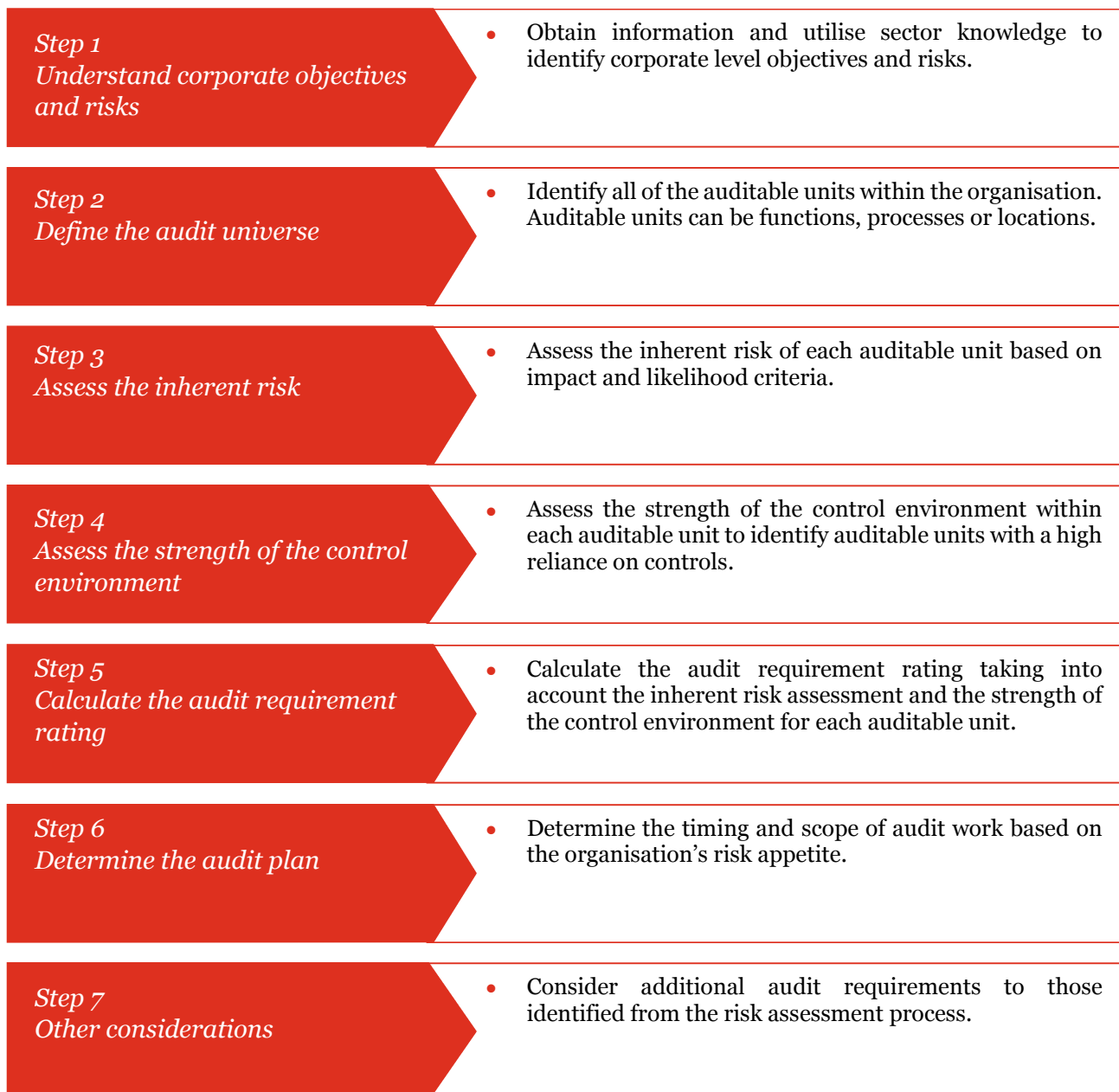
1. Introduction and approach

Introduction

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

Approach

The internal audit service is delivered in accordance with the Internal Audit Charter. A summary of the approach to undertaking the risk assessment and preparing the plan is set out below. The internal audit plan is driven by the Council's organisational objectives and priorities, and the risks that may prevent the Council from meeting those objectives. A more detailed description of the approach can be found in Appendices 1 and 2.



Basis of our plan

The level of agreed resources for the internal audit service for 1 April 2016 to 31 March 2017 is 130 days and £66,300; this is based on 115 days in line with 2015/16 plus 15 days not utilised in the previous year. The plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources and in approving the risk assessment and internal audit plan, the Finance, Audit and Performance Committee recognises this limitation.

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.

Some of the other sources of assurance for Hinckley and Bosworth Borough Council are as follows:

- external inspections; and
- external audit work.

We do not intend to place reliance upon these other sources of assurance.

Key contacts

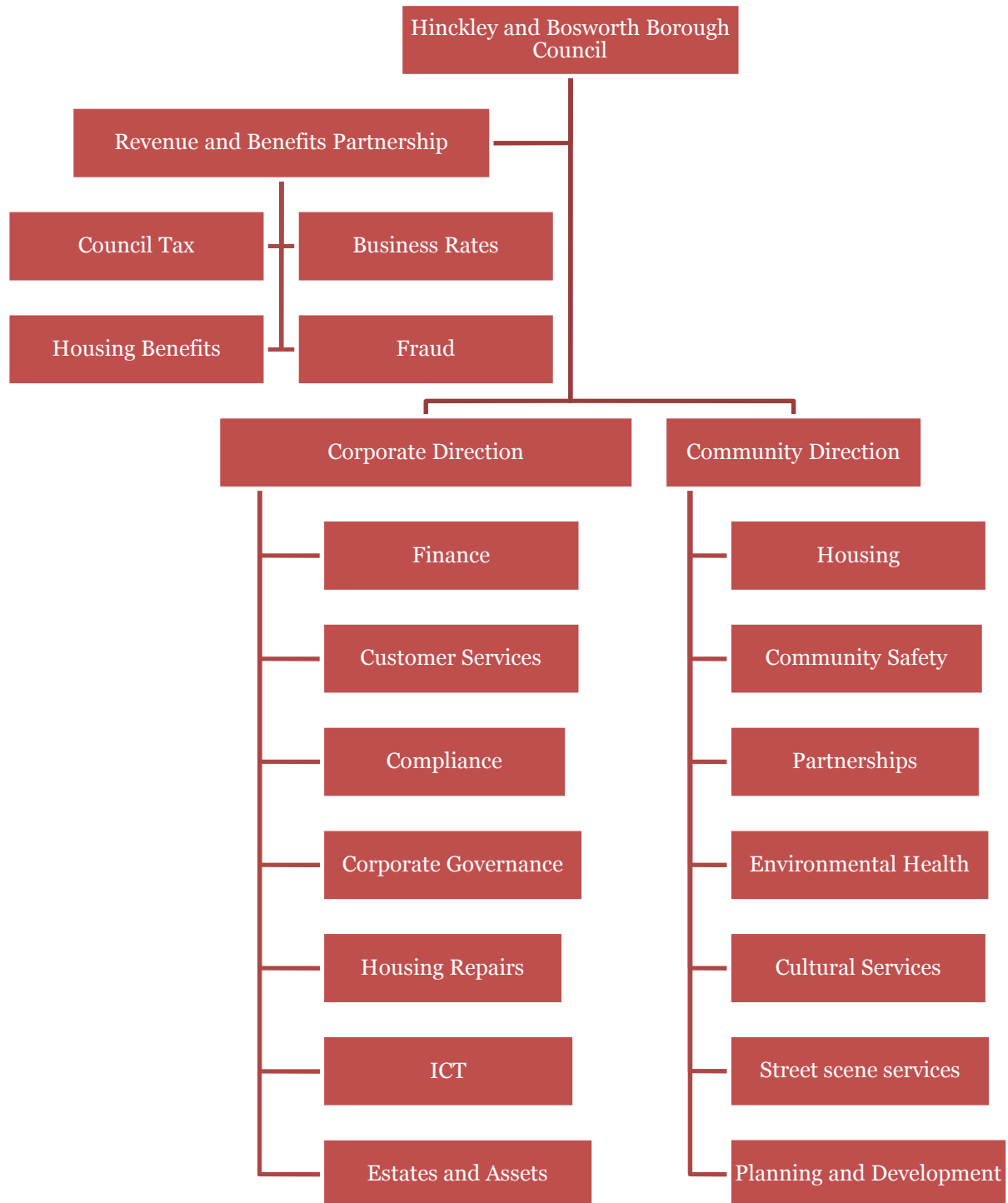
Meetings have been held with the following key personnel during the planning process:

- Steve Atkinson, Chief Executive
- Bill Cullen, Deputy Chief Executive
- Julie Kenny, Chief Officer
- Ashley Wilson, Interim Chief Officer Finance, Customer Services and Compliance
- Avtar Sohal, External Audit Manager

2. Audit universe, corporate objectives and risks

Audit universe

The diagram below represents the high level auditable units within the audit universe of Hinckley and Bosworth Council. These units form the basis of the detailed strategic risk assessment in section 3.



Corporate objectives and risks

Corporate level objectives and risks have been determined by Hinckley and Bosworth Borough Council. These are recorded in the table below and have been considered when preparing the internal audit plan

Corporate Aims	Risk(s) to achievement of objective	Cross reference to Internal Audit Plan (see Section 4)
A1 - Creating a vibrant place to live and work	S.01 – Failure to focus on priorities and initiatives	A.7, B
	S.06 – Failure to implement the Town Centre Plan	A.7, B.4
	S.11 – Failure to deliver the Medium Term Financial Strategy successfully	A.1, A.4
A2 - Empowering communities	S.12 – Insufficient Business Continuity Management (incl Disaster Recovery) arrangements	A.3, A.4
A3 - Supporting individuals	S.14 – Dealing with numerous Public Enquiries	NA
	S.15 – Failure to adopt and deliver the Local Development Scheme successfully	A.7, B.4
A4 - Providing value for money and pro-active services	S.22 – Failure of County Council Support/ Engagement for the Local Strategic Partnership	A.7, B.4
	S.25 – Failure to provide a fit for purpose Leisure Centre	A.7
	S.30 – Review by the Qualities Commission for Human Rights of disability issues	NA
	S.33 – MIRA and RGF Fund	A.1
	S.34 – Safeguarding of vulnerable adults, children and young people	NA
	S.37 – Non delivery of capital projects which are interdependent	A.7
	S.43 – Leicestershire County Council budget cuts	A.1, A.4
	S.45 – Council does not prevent or detect fraudulent activities	A.1, C.1, C.2
	S.46 – Construction of Hinckley Leisure Centre	A.7

3. 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	Corporate Direction						
A.1	Finance	A4, S.01, S.11, S.12, S.33, S.43, S.45	6	4	4	●	Annual
A.2	Customer Service	A1-4, S.11,	4	4	2	●	Every three years
A.3	Compliance	A3, A4, S.12, S.14, S.30, S.45	6	5	4	●	Annual
A.4	Corporate Governance	A4, S.45, S.14	6	5	4	●	Annual
A.5	Housing Repairs	A1, A4, S.11	4	4	2	●	Every three years
A.6	ICT	A4, S.11, S.12	5	4	3	●	Every two years
A.7	Estates and Assets	A1-4, S.06, S.11, S.25, S.37, S.46	6	4	4	●	Annual
B	Community Direction						
B.1	Housing	A1, A2, S.11	6	4	4	●	Annual
B.2	Community Safety	A1, A2, S.11, S.34	5	4	3	●	Every two years
B.3	Partnerships	A4, S.11, S.22	5	3	4	●	Annual
B.4	Environmental Health	A1-4, S.11	5	4	3	●	Every two years
B.5	Cultural Services	A1, S.11	4	4	2	●	Every three years
B.6	Street Scene Services	A1, A4, S.06, S.11	4	4	2	●	Every three years
B.7	Planning and Development	A1, S.11, S.15	4	4	2	●	Every three years

C		Revenues and Benefits Partnership						
C.1	Council Tax	A3, A4, S.11, S.34S.45	5	4	3	●	Every two years	
C.2	Business Rates	A3, A4, S.11, S.45	5	4	3	●	Every two years	
C.3	Housing Benefit	A3, A4, S.11, S.34 S.45	6	4	4	●	Annual	
C.4	Fraud prevention and detection	A3, A4, S.11, S.45	4	4	2	●	Every three years	

Key to frequency of audit work

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

The audit requirement rating drives the frequency of internal audit work for each auditable unit. The 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 our internal audit work planned for 1 April 2016 to 31 March 2017, together with indicative number of audit days for each audit.

Ref	Auditable Unit	Indicative number of audit days*	Comments	Audit Sponsor
A	Corporate Direction			
A.1	Finance	15	Q3 Support HBBC with the refresh to the Corporate Plan and DCLG efficiency plan Review of key finance controls	Ashley Wilson
A.3	Compliance	10	Q2 Review the arrangements to protect against cyber threats, including 'phishing' emails which put personal data at risk	Ashley Wilson
A.4	Corporate Governance	15	Q2 Support HBBC in preparing for the LGA Corporate Peer Challenge Risk management review to consider current arrangements	Julie Kenny
A.6	ICT	12	Q4 Review of Information Technology General Controls and Processes in place across the ICT partnership arrangement	Paul Langham
A.7	Estates and Assets	16	Q3 Follow up review considering the Crescent Development and Leisure Centre capital schemes and development Support HBBC with the advancement of the Hinckley & Bosworth Development Company	Malcolm Evans
B	Community Direction			
B.1	Housing	6	Q4 Review rolled forward from 15/16 HRA Investment Plan – review compliance with the newly implemented Investment Plan	Sharon Stacey
B.2	Community Safety	6	Q3 Exact scope of work to be determined following a discussion with relevant management	Sharon Stacey
B.3	Partnerships	10	Q1 Review rolled forward from 15/16: Review of the overall governance arrangements and current practices to	Sharon Stacey

				support effective partnership arrangements within the ICT function	
B.4	Environmental Health	6	Q3	Exact scope of work to be determined following a discussion with relevant management	Rob Parkinson
C	Revenues and Benefits Partnership				
C.3	Housing Benefit	7	Q4	Exact scope of work to be determined following a discussion with relevant management	Sally O'Hanlon
C.4	Fraud prevention and detection	7	Q3	Exact scope of work to be determined following a discussion with relevant management	Sally O'Hanlon
D	Project Management				
D.1	Project management	8	Q1-Q4	Including liaison with external audit, attendance at Finance, Audit and Performance Committees and Management meetings	NA
D.2	Prior year recommendations follow up	7	Q1-Q4	Review and validation of actions taken to address all high and medium risk findings raised as part of the 2015/16 Internal Audit	
D.3	Contingency	5	Q1-Q4	To include ad hoc training	NA
	Total days	130			

** Where appropriate and in agreement with client management, we are able to flex our audit service to include more senior or specialist staff to respond to the risks generated by audit reviews. Where we do this we effectively agree a fixed fee for the audit work which is derived from the combined fees of the planned audit days allocated to this audit review during the annual planning process.*

Key performance indicators

Appendix 3 sets out the proposed Key Performance Indicators for internal audit. Performance against these indicators will be reported to the Finance, Audit and Performance Committee.

Appendix 1: Detailed methodology and risk assessment criteria

Methodology

Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy, organisational structure and corporate risk register;
- Drawn on our knowledge of the local government sector; and
- Met with a number of senior management.

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 Hinckley & Bosworth Borough 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 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; 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)

<i>Likelihood rating</i>	<i>Assessment rationale</i>
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 Finance, Audit and Performance Committee and management, we have proposed the following key performance indicators.

<i>KPI</i>	<i>Target</i>	<i>Comments</i>
Infrastructure		
Audits budgeted v actual	+/- 10 plan days	We expect to deliver the annual plan with tolerance of 10 days with the agreement of management
Planning		
% of audits with Terms of Reference	100%	Terms of reference will be agreed with the Audit Sponsor before fieldwork commences
Fieldwork		
% of audits with an exit meeting	100%	Exit meetings will be held with the Audit Sponsor once fieldwork has been completed for all reviews undertaken
Reporting		
Draft reports issued promptly	100%	Draft reports will be issued within three weeks following fieldwork completion
Attendance at Audit Committee	100%	
Relationships		
Overall client satisfaction score	9/10	



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