

Internal Audit Risk Assessment and Plan 2017/18

DRAFT

Hinckley and
Bosworth Borough
Council

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Distribution List

Members of the Audit Committee

This document has been prepared only for Hinckley and Bosworth Borough Council and solely for the purpose and on the terms agreed with Hinckley and Bosworth Borough Council in our engagement letter dated 10 May 2016.

1. Introduction and approach

Introduction

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

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.

Basis of our plan

The level of agreed resources for the internal audit service for 1st April 2017 to 31 March 2018 is 125 days and £65,000; this is based on 115 days in line with 2016/17 plus 10 days not utilised in the previous year, and therefore 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 Audit 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.

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 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

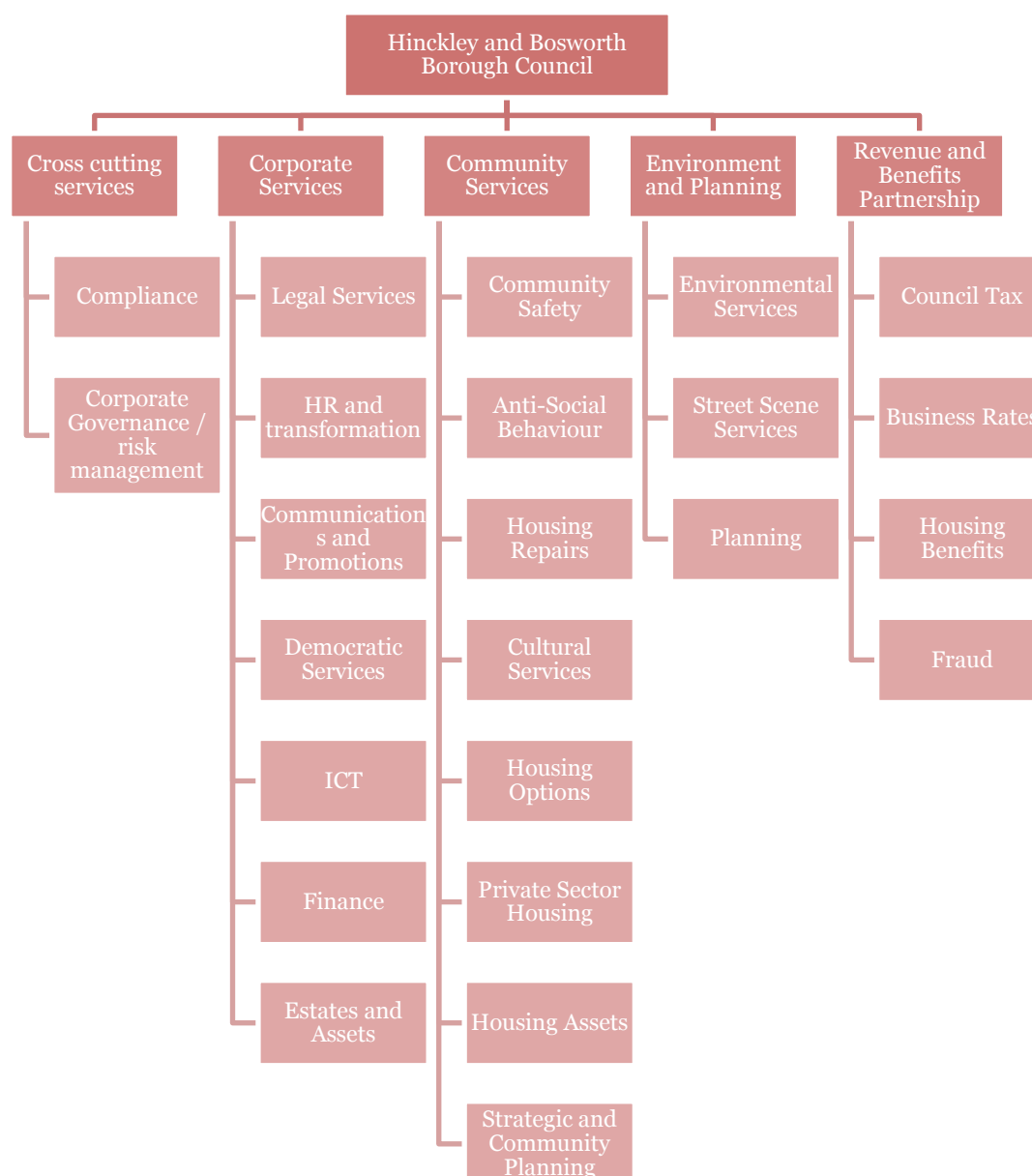
Meetings have been held with the following key personnel during the planning process:

- Bill Cullen, Chief Executive
- Julie Kenny, Monitoring Officer
- Ashley Wilson, Section 151 Officer
- Corporate Services Management Team

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 Borough Council. These units form the basis of the internal audit plan.



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.

<i>Objective</i>	<i>Risk(s) to achievement of objective</i>	<i>Cross reference to Internal Audit Plan (see Section 4)</i>
People – helping people to stay healthy, active and protected from harm	S.14 – Dealing with numerous Public Enquiries	A.1, B.3, B.4, D.1
Places – creating clean and attractive places to live and work	S.15 – Failure to adopt and deliver the Local Development Scheme successfully	A.1, B.3, B.7, C.1, C.2, C.4, C.5, C.6, C.7, D.2
Prosperity – encouraging growth attracting businesses, improving skills and supporting regeneration	S.30 – Review by the Qualities Commission for Human Rights of disability issues	A.1, B.1, B.2
	S.34 – Safeguarding of vulnerable adults, children and young people	A.1, A.2, B.1, C.1, C.3, D.1
	S.37 – Non delivery of capital projects which are interdependent	A.1, A.2, B.7, C.2, C.4, C.7, D.3
	S.43 – Leicestershire County Council budget cuts	A.1, A.2, B.5, B.6, E.1, E.2, E.3, E.4
	S.45 – Council does not prevent or detect fraudulent activities	A.1, A.2, B.2, B.5, B.6, E.1, E.2, E.3, E.4

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	Cross cutting services						
A.1	Compliance	S.14, S.15, S.30, S.34, S.37, S.43, S.45	6	5	4		Annual
A.2	Corporate governance / risk management	S.34, S.37, S.45	6	5	4		Annual
B	Corporate Services						
B.1	Legal services	S.30	4	4	2		Every three years
B.2	HR and Transformation	S.30, S.45	5	4	3		Every two years
B.3	Communications and Promotions	S.14, S.15	3	4	NA		NA
B.4	Democratic services	S.14	4	5	NA		NA
B.5	ICT	S.43, S.45	5	4	3		Every two years
B.6	Finance	S.43, S.45	6	4	4		Annual
B.7	Estates and Assets	S.15, S.37	6	4	4		Annual
C	Community Services						
C.1	Community safety / anti-social behaviour	S.15, S.34	4	4	2		Every three years
C.2	Housing repairs	S.15, S.37	4	4	2		Every three years
C.3	Cultural services	S.34	4	4	2		Every three years
C.4	Housing options	S.15, S.37	4	4	2		Every three years
C.5	Private sector housing	S.15	4	4	2		Every three years

C.6	Housing assets	S.15	5	4	3		Every two years
C.7	Strategic and community planning	S.15, S.37	3	3	2		Every three years
D	Environment and planning						
D.1	Environmental Health	S.14, S.34	4	4	2		Every three years
D.2	Street Scene Services	S.15	4	4	2		Every three years
D.3	Planning	S.37	4	4	2		Every three years
E	Revenues and Benefits Partnership						
E.1	Council Tax	S.43, S.45	5	4	3		Every two years
E.2	Business Rates	S.43, S.45	5	4	3		Every two years
E.3	Housing Benefit	S.43, S.45	6	4	4		Annual
E.4	Fraud prevention and detection	S.43, S.45	4	4	2		Every three years

Key to frequency of audit work

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

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 2017 to 31 March 2018, together with indicative start dates for each audit.

Ref	Auditable Unit	Indicative number of audit days*	Q	Comments	Audit Sponsor
A	Cross cutting services				
A.1	Compliance	10	Q3	Exact scope of work to be determined following a discussion with relevant management	Julie Kenny
A.2	Corporate governance / risk management	13	Q2	Support in the refresh of business continuity plans for departments Review of existing risk management arrangements	Julie Kenny
B	Corporate Services				
B.1	Legal services	7	Q2	Exact scope of work to be determined following a discussion with relevant management	Aftab Razzaq
B.2	HR and transformation	8	Q4	Exact scope of work to be determined following a discussion with relevant management	Julie Stay
B.6	Finance	15	Q3	Review to consider the controls in place over section 106 monies	Ashley Wilson
			Q1-4	Ongoing assurance over key finance controls provided on a quarterly basis	
B.7	Estates and assets	10	Q3	Exact scope of work to be determined following a discussion with relevant management	Malcolm Evans
C	Community services				
C.4	Housing options	8	Q2	Exact scope of work to be determined following a discussion with relevant management	Jo Wykes
C.5	Private sector housing	8	Q3	Exact scope of work to be determined following a discussion with relevant management	Rosemary Leach
C.7	Strategic and community planning	8	Q4	Exact scope of work to be determined following a discussion with relevant management	Edwina Grant
D	Environment and planning				
D.1	Environmental Health	8	Q3	Exact scope of work to be determined following a discussion with relevant management	Steve Merry
E	Revenues and Benefits Partnership				
E1-4	Revenues and benefits partnership	12	Q3	Exact scope of work to be determined following a discussion with relevant management	Sally O'Hanlon
F	Project Management				
F.1	Prior year recommendation follow up	7	Q1-Q4	Including liaison with external audit, attendance at Audit Committee and Management meetings	NA
F.2	Project management	8	Q1-Q4	Review and validation of actions taken to address all high and medium risk findings raised as part previous Internal Audits	NA

F.3	Contingency	3	Q1- Q4		NA
	Total days	125			

** 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 4 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

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 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 Hinckley and 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)
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 review
Reporting		
Draft reports issues 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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