

## Bath & North East Somerset Council

MEETING:	Corporate Audit Committee	
MEETING DATE:	6th February 2020	AGENDA ITEM NUMBER
TITLE:	Audit Plan – Audit Committee Consultation	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
None		

### 1 THE ISSUE

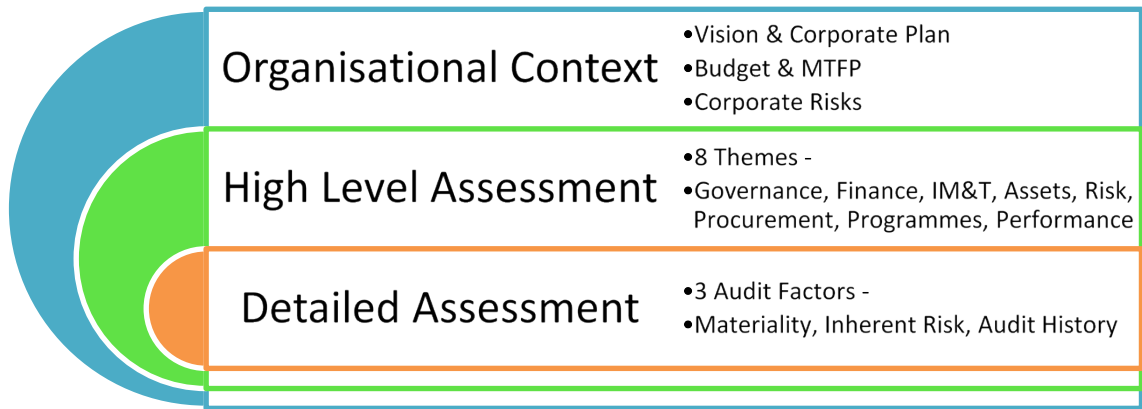
- 1.1 The aim of the report is to update the Audit Committee on the methodology used to create the Internal Audit Plan and asks for comments on any areas or themes they would like to be considered in the process to develop the 2020/21 which will be submitted to this Committee in April 2020 for approval.

### 2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is to note the audit planning methodology and contribute any areas or themes they would like to be considered in relation to the Internal Audit Plan for 2020/21.

### 3 THE REPORT

- 3.1 The planning process is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Chief Internal Auditor to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year. In a stable environment where resources were relatively fixed this has been possible by using traditional methods of risk assessing the 'audit universe'.
- 3.2 However since the 'era of austerity' in the public sector became the norm this approach has no longer been adequate and so a new methodology – the Reasonable Assurance Model - was created and adopted in conjunction with a number of other councils in the South West and indeed its approach won a Public Finance award in 2017
- 3.3 The outline of the model is as follows with the key elements in the middle section which introduced a high-level assessment of themes based on good governance:



### 3.4 Reasonable Assurance Model – Purpose

The purpose of the model is to:

- Focus on Corporate Governance & Organisational Health
- Consider Thematic Risk and levels of Assurance
- Not to be a Performance Metric
- Adapt to different Organisations
- Act as a Prioritisation & Planning Tool
- Support Audit Planning & Annual Governance Statement
- Support Organisational Improvement
- Not be static and be refreshed periodically

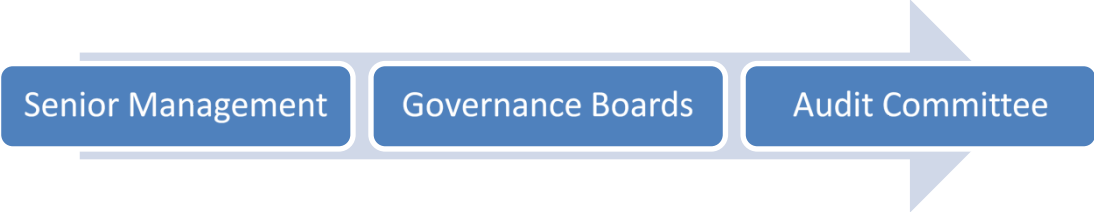
### 3.5 Reasonable Assurance Model – Principles

The principles are:

- Plan should be a strategic top down assessment which is risk based
- Levels of assurance should be compared to levels of risk
- Resources should be focussed first on areas where assurance is low and risk is high
- Plan should be dynamic and not fixed, no need for a fixed Audit Universe
- Risk Assessment should be simplified around a small number of key factors
- Plan should lead to sufficient reviews to reach a 'reasonable assurance' opinion

3.6 The plan will be developed in three key stages as detailed below

- 1) High Level Assessment of Reasonable Assurance Model
- 2) Detailed Risk Assessment of auditable areas
- 3) Consultation & Approval



**3.7 Risk Assessment – Reasonable Assurance Model**

The model assesses level of Assurance in place over eight themes (and any new areas)

Each Theme has a set of overview questions which assess the level of assurance and the level of risk for each theme. (An example of these has been provided at the informal Committee briefing meetings)

Purpose is to identify what assurance there is that sound strategies, policies and procedures are in place to deliver a healthy organisation that we can rely on or that enables us to rely on assurance provided by a third party.

The results should enable audit resources to be prioritised on areas where assurance is low and risk is high and also identify gaps or areas of high risk that we need to include in our Audit Plan. This therefore creates a new Audit Universe each year.



### **3.8 Examples of Areas being assessed for each Theme are as follows:**

#### **Theme 1 – Corporate Governance**

- Overall Governance Framework/ Ethical Framework
- Vision & High Level Priorities
- Constitution, Structure & Decision Making
- Codes of Conduct/Ethical Framework

#### **Theme 2 – Financial Management**

- Medium Term Finance & Resource Planning
- Annual Budget Setting
- Financial Performance & Resilience – Revenue/Capital/Reserves
- Key Financial Management Systems/Rules & Regulations

#### **Theme 3 – Risk Management**

- Risk Management Strategy & Framework
- Decision Making Guidance
- Corporate/Strategic/Operational/Major Project Risks

#### **Theme 4 – Performance Management**

- Corporate Plan & Corporate Performance
- Service Planning & Service Performance
- Internal & External Benchmarking

#### **Theme 5 – Procurement & Commissioning**

- Procurement & Commissioning Framework
- Contract & Commercial Management
- Governance & Gateways/Knowledge & Skills

#### **Theme 6 – Programme & Project Management**

- Programme/Project Management Methodologies
- Major Project Governance/Change Control/Project Reporting
- Benefit Realisation

#### **Theme 7 – Information Management**

- Information Management Strategy/ Standards & Security Requirements
- Information Security/Compliance/Data Quality, Classification & Integrity
- Business Continuity & Disaster Recovery

#### **Theme 8 – Asset Management**

- Asset Management Strategy (& Plans)
- Safeguarding & Security/Asset Utilisation (& Realisation)
- Workforce Planning/HR Framework/ Skills & Organisational Development

### 3.9 Risk Assessment – Audit Factors

Using the results of –

- a) Reasonable Assurance Model Work
- b) Views & Requests of Senior Management/Audit Committee
- c) Views & Requests of Audit West Senior Management/National/Regional Factors

We then carry out risk assessment of potential audit areas using the following factors –

**MATERIALITY**  
**INHERENT RISK**  
**AUDIT HISTORY**

Each area would then have a simple risk assessment as follows

#### **Materiality**

Budget (Income + Expenditure + Savings in Medium Term Financial Plan)

High Risk > £1M

Medium Risk £250K - £1M

Low Risk <£250K

Or Direct Linkage to –

Achievement of a Corporate Priority and/or  
Mitigation of a Corporate Risk

#### **Inherent Risk**

Risk Management Judgement – Factors involved for H/M/L

Inherent Operational Risk – i.e. Cash, Stocks, dependency on third party

Inherent Reputational Risk – i.e. Level of Damage to Council

Inherent Technical Risk – i.e. Technical reliance/IT/Systems led

Inherent People Risk – i.e. Lack of Separation of duties or known staffing issues

#### **Audit History**

Audit Opinion:

High Risk – Level 1 or Level 2 Opinion at Last Audit (No or limited assurance)

Medium – Level 3 Opinion or no previous audit in last 3 years (Adequate Assurance)

Low – Level 4 or Level 5 Opinion at Last Audit (Robust or significant Assurance)

The results of this risk assessment process would generate a long list of areas which could then be refined into a suitable audit plan which could be matched to available resources and then prepared for consultation.

### **3.10 Consultation & Input – Audit Committee**

The Audit Committee is a key stakeholder and ultimately approve the Audit Plan and therefore the request is for any feedback on areas of concern or issues which the planning process can consider and take account of before it is finalised.

To help in this process the Chartered Institute of Internal Auditors has drawn up ten key areas for 2020 which organisations should take account of in preparing their audit plans and these are detailed below as a point of reference to help the committee in understanding where they feel audit coverage may be beneficial.

- 1) Increasing expectations from GDPR on Cybersecurity & Data Privacy;
- 2) Level of Regulatory/Statutory Burden;
- 3) Increasing Digitilisation of Services;
- 4) Delivery of Services through Third parties & Contract Management;
- 5) Maintaining Business Resilience;
- 6) Increasing Financial Risks;
- 7) Level of Political instability and economic impacts;
- 8) Organisational Development & Skills;
- 9) Maintaining high standards of Ethics & Culture;
- 10) Developing appropriate response to Climate Change.

## **4. STATUTORY CONSIDERATIONS**

- 4.1 Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIPFA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service. Implications of not providing this service would include qualification of the Accounts, increase in External Audit fees, potential rise in fraud and corruption and missappropriation of assets and resources.

## **5. RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

- 5.1 The Annual Planning process is carried out by the Head of Audit & Assurance.

## **6. RISK MANAGEMENT**

- 6.1 Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud. Internal Audit assists the council in identifying risks, improvement areas and recommending good practice.

## 7. CLIMATE CHANGE

- 7.1 No direct implications however the review process will consider key risks (& assurances) which may include Climate Change and any associated significant issues where identified through the review process.

## 8. OTHER OPTIONS CONSIDERED

- 8.1 Audit Methodology is driven by professional standards and legislative requirements and the model created subjected to external assessment. The plan itself is subject to wide consultation in order to ensure sufficient options and approaches have been considered.

## 9. CONSULTATION

- 9.1 In developing and delivering the Annual Audit Assurance Plan the Internal Audit Service has consulted widely with officers and members and with the external auditors. The Council's S151 Officer has specifically been consulted based on their statutory responsibilities.

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<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	