

North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 1 DECEMBER 2015

SUBJECT OF REPORT: DRAFT AUDIT PLAN METHODOLOGY

TOWN OR PARISH: NONE

OFFICER PRESENTING: JEFF WRING, HEAD OF AUDIT WEST

KEY DECISION: NO

RECOMMENDATIONS

The Audit Committee is asked to:

- Comment on the proposed methodology.

1. SUMMARY OF REPORT

This report updates the Audit Committee on a revised methodology to create the Internal Audit Plan which is planned to be introduced over the next 12 months.

2. POLICY

The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient in ensuring delivery of the council's objectives.

3. DETAILS

BACKGROUND - REASONABLE ASSURANCE MODEL

As part of reviewing best practice and updating our own processes the service has been reviewing its own audit plan methodology in conjunction with the approach adopted at B&NES and is consulting on a new process moving forward.

The existing process utilises a risk assessment approach over the whole audit universe to generate an audit plan each year. This process assumed that there were sufficient resources to cover the whole audit universe over a 5 year period, that the audit universe was always up to date and that risks were broadly the same at a strategic level. It was effectively therefore a 'bottom-up' approach that relied heavily on judgement.

The new process is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Head of Audit 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'.

It is considered that this position is no longer viable as audit resources have been reduced, in North Somerset's case by 30% in the last year and the level of risk and operating models in the Council have changed significantly over the last five years.

In recognition of this regional work has taken place to look at alternative models which could be adopted or created to be able to justify a sustainable audit service and audit plan.

The outline of the methodology proposed has been led and developed by Audit West in the South West and nearly all Councils have signed up in principle to adopt the high level approach which is described briefly as follows –

Reasonable Assurance Model – Principles

- Plan should be a strategic top down assessment which is broad based, not just Finance
- 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, less need for an 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

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

Stage 1 – Risk Assessment – Reasonable Assurance Model

Use Model to assess 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.

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.

Reasonable Assurance Model – 8 Themes



Examples of Areas being assessed for each Theme are as follows

Theme 1 – Corporate Governance

- Overall Governance Framework
- Ethical Framework
- Counter-Fraud Arrangements
- Vision & High Level Priorities
- Constitution, Structure & Decision Making
- Codes of Conduct
- Statutory Policy & Budget Framework

Theme 2 – Financial Management

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

Theme 3 – Risk Management

- Risk Management Strategy & Framework
- Risk Maturity & Appetite
- Decision Making
- Corporate/Strategic Risks
- Major Project Risks
- Transformation Risks
- HR Risks
- Fraud Risks
- Safety Risks

Theme 4 – Performance Management

- Corporate Plan & Corporate Performance
- Service Planning & Service Performance
- Internal & External Benchmarking
- Strategic Performance Reviews & Business Intelligence
- Target Setting & Reporting
- Customer Feedback & Complaints
- Integrated Reporting
- Transparency

Theme 5 – Procurement & Commissioning

- Procurement & Commissioning Framework
- Delivery/Category Plans
- Contract Standing Orders & Rules
- Contact & Commercial Management
- Governance & Gateways
- Knowledge & Skills
- Benefits Realisation & Savings

Theme 6 – Programme & Project Management

- Transformational Change Programmes
- Links to Corporate Vision & Objectives
- Major Project Governance
- Change Control
- Project Reporting
- Financial & Risk Management
- Benefit Realisation

Theme 7 – Information Management

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

Theme 8 – Asset Management

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

Stage 2 – Risk Assessment – Audit Plan

Using the results of –

- a) Reasonable Assurance Model Work
- b) Views & Requests of Council Senior Management
- c) Views & Requests of Audit West Senior Management

Carry out Risk Assessment Process of Audit Areas using following Factors –

MATERIALITY INHERENT RISK AUDIT HISTORY

Each area would have a simple High/Medium/Low 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

Medium – Level 3 Opinion or no previous audit in last 3 years

Low – Level 4 or Level 5 Opinion at Last Audit

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.

Stage 3 – Consultation & Approval – Audit Plan

- 1) Consultation with S151 Officer
- 2) Consultation with Corporate Management Team
- 3) Consultation with Audit Committee

Introducing this exercise and carrying it out in full is substantial and it is therefore proposed that it will be introduced in stages over the next 12 months and used in full for the 2017/18 audit plan. Key areas will be trialled in preparing the audit plan for 2016/17 and it is intended that as a minimum the fundamental principles will be applied of the new methodology.

Views of the Committee are therefore sought to help develop and refine the methodology.

4. CONSULTATION

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.

5. FINANCIAL IMPLICATIONS

There are no direct financial implications from this report.

6. RISK MANAGEMENT

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. EQUALITY IMPLICATIONS

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

8. CORPORATE IMPLICATIONS

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide assurance to officers and members of the council's corporate governance.

9. OPTIONS CONSIDERED

A number of options were considered by Heads of Audit across the South West.

AUTHOR

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BACKGROUND PAPERS

Annual Audit Assurance Plan 2015/16

Audit Committee March 2015