

# **North Somerset Council**

## **REPORT TO THE AUDIT COMMITTEE**

**DATE OF MEETING: 30 JANUARY 2020**

**SUBJECT OF REPORT: AUDIT PLAN – AUDIT COMMITTEE CONSULTATION**

**TOWN OR PARISH: NONE**

**OFFICER PRESENTING: JEFF WRING - AUDIT WEST**

**KEY DECISION: NO**

## **RECOMMENDATIONS**

The Audit Committee is asked to:

- Comment on any areas or themes they would like to be considered in relation to the Internal Audit Plan for 2020/21.

### **1. SUMMARY OF REPORT**

This report updates the Audit Committee on the methodology used to create the Internal Audit Plan and asks for comments on areas or themes they would like to be considered within the plan for 2020/21.

### **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.

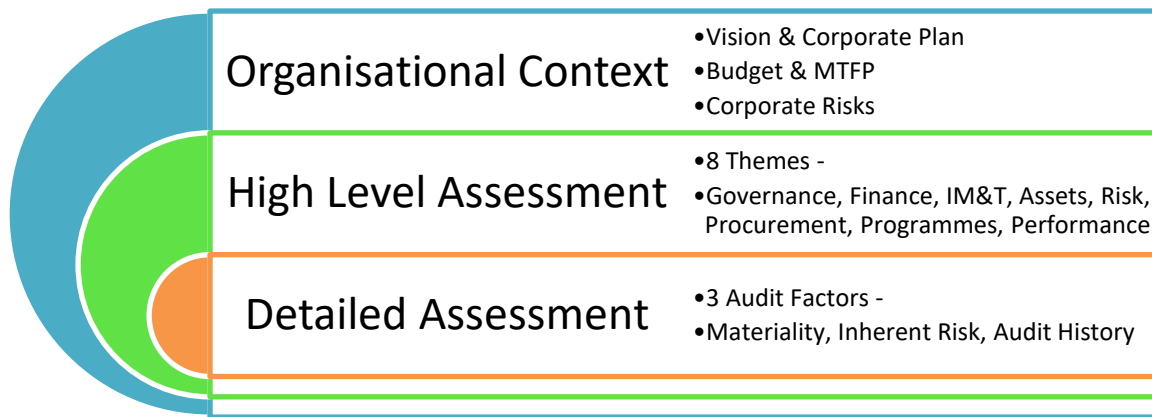
### **3. DETAILS**

#### **BACKGROUND - REASONABLE ASSURANCE MODEL**

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

- Focussed on Corporate Governance & Organisational Health
- Considers Thematic Risk and levels of Assurance
- Not a Performance Metric
- Adaptable to different Organisations
- Acts as a Prioritisation & Planning Tool
- Supports Audit Planning & Annual Governance Statement
- Supports Organisational Improvement
- Not static and refreshed periodically

### 3.5 Reasonable Assurance Model – Principles

- 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 at the end of March.

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.

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

Views of the Committee are therefore sought to finalise the plan.

## **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. LEGAL POWERS AND IMPLICATIONS**

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 CIFPA 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.

## **8. CLIMATE CHANGE & ENVIRONMENTAL IMPLICATIONS**

No direct implications however the plan process will consider key risks (& opportunities) which may include Climate Change and report back on whether assurances can be given on the delivery of the organisations plan to mitigate the risk in this area.

## **9. EQUALITY IMPLICATIONS**

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

## **10. 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.

## **11. OPTIONS CONSIDERED**

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.

## **AUTHOR**

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## **BACKGROUND PAPERS**

Annual Audit Assurance Plan 2019/20

Audit Committee July 2019