

**REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT
COMMITTEE**

DATE: 27 February 2020

REPORT TITLE: AUDIT PLAN CONSULTATION - 2020/21

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Purpose of Report

1. This report updates the Audit Committee on the methodology used to create the Internal Audit Plan, asks it to support an increase in the level of coverage along with any comments on areas or themes they would like to be considered within the plan for 2020/21.

Recommendation:

The Audit Committee is asked to:

- Support an increase in the level of Internal Audit coverage to 100 days from 2020/21
- Comment on any areas or themes they would like to be considered in relation to the Internal Audit Plan for 2020/21.

Issues for Consideration

2. 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 authority's objectives.
3. The Audit Committee is asked for its views on the level of assurance they require so that a final plan can be presented at the next meeting of the Committee in April.

Report Narrative / Main Content

4.1 BACKGROUND – INTERNAL AUDIT ROLE & LEVEL OF COVERAGE

- 4.2 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 an

organisation has been long established there are a number of reliable sources for benchmarking sufficient coverage. However Combined Authority's are a relatively new entity and so our initial coverage totalled 80 days per year to reflect that WECA as a new organisation was just forming and its core governance mechanisms were still being devised and implemented.

4.3 The Committee has seen during the last 12 months that the level and complexity of transactions has increased significantly with issues identified around the Annual Accounts. Coupled with a fairly rapid transfer of funding streams and responsibilities to WECA during the last 24 months notably Adult Education and Integrated Transport functions its level of risk and size is increasing. The organisation is now at a point where it has consulted widely on its strategic aims and a number of its key strategic objectives – such as transport – and is now moving into a new phase of delivery on its objectives.

4.4 This shifting arena also impacts on the risk and control framework and directly into the level of coverage from an Internal Audit perspective. Due to this growth the Audit Committee's views are therefore sought to support an increase in the level of audit coverage so that it receives the right level of assurances to fulfil its role.

4.5 As background information the level of annual Internal Audit coverage in 2019/20 in Combined Authority's across the country is variable as individual 'deals' and working arrangements are different –

Greater Manchester – 487 Days

Sheffield City Region – 310 Days

Liverpool – 200 Days

North of Tyne – 200 Days

West Midlands – 185 Days

WECA – 80 Days

Tees Valley – Audit Manager from Stockton-on-Tees LA plus 50 days from RSM

4.6 Whilst the internal control framework of WECA is currently sound the framework is changing and expanding as detailed above and so it is our view that in order to provide a reasonable assurance opinion a level of coverage needs to increase and in the short term to at least 100 days in order to fulfil all our responsibilities.

If coverage is maintained at the current level of 80 days for any sustained period then a limited level of assurance can only be provided. For 2020/21 based on a new level of 100 days this will entail us focussing on the following core areas with indicative days as follows –

LEP – 10 Days

Corporate Governance – 15 Days

Core (Financial) Systems – 15 Days

Core Grant Audit Certification – 10 Days

IT Audit – 5 Days

Counter Fraud & Corruption – 5 Days

Risk Management – 5 Days

Follow-Up Audits – 5 Days

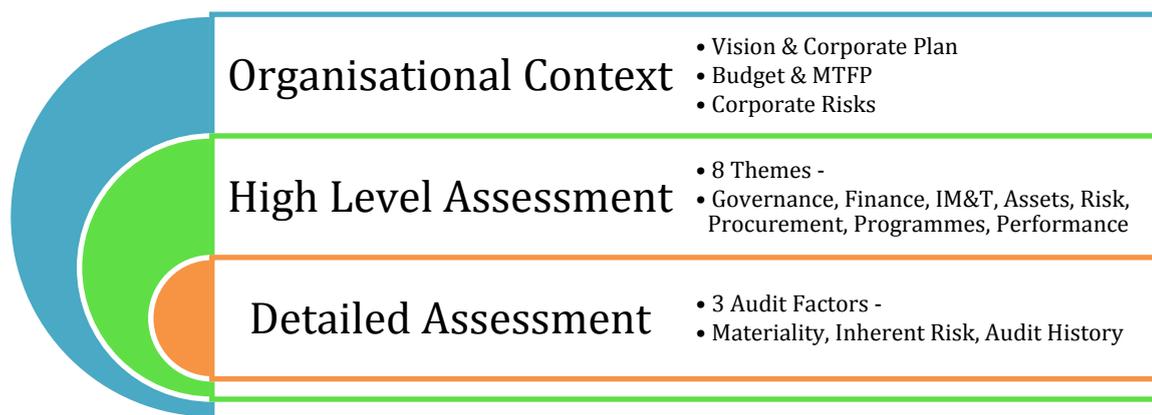
30 Days available for allocation through the plan process

The views of the Committee are therefore sought to assist in this process.

4.7 BACKGROUND - AUDIT PLAN METHODOLOGY

Our planning process is based around the Reasonable Assurance Model which 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.

- 4.8 The outline of the model has previously been presented to the Audit Committee but for the benefit of new Members to the Committee is as follows with the key elements in the middle section which introduced a high level assessment of themes based on good governance.



4.9 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

4.10 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

4.11 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

4.12 Risk Assessment – Reasonable Assurance Model

The model assesses level of Assurance in place over eight themes. 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.



4.13 Examples of Areas Examined – 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

4.14 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 a risk assessment of audit areas using the following factors –

MATERIALITY
INHERENT RISK
AUDIT HISTORY

Each area would then have a simple risk assessment which 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.

4.15 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.

Along with the issues identified earlier in the report and 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 Audit Plan before its next meeting.

Consultation:

- 5. Report and work undertaken is consulted with the Director of Investment & Corporate Services.

Public Sector Equality Duties:

- 6. No direct implications.

Economic Impact Assessment:

7. No direct implications.

Finance Implications:

8. Any increase in coverage will consequently increase costs, the recommendation is for an increase in the level of days to 100 which is 20% higher than 2019/20.

Legal Implications:

9 No direct implications.

Land/Property Implications;

10 No direct implications.

Human Resources Implications:

11 No direct implications.

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Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk