

ITEM: 9

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 28 SEPTEMBER 2017

REPORT TITLE: WECA - INTERNAL AUDIT PLAN

AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)

Purpose of Report

1. To present the indicative Internal Audit Plan for 2017/18 to the Audit Committee.

Issues for Consideration

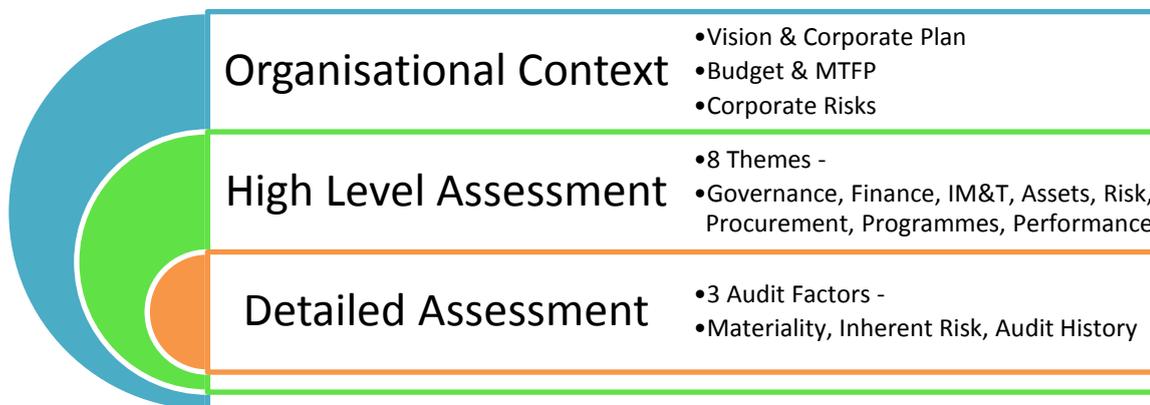
2. To consider the areas included within the Audit Plan in the context of WECA being a new organisation and the core assurances it requires from its audit function on its core systems and governance framework.
3. To ensure that the Audit Committee can rely on the independent assurance given by its Internal Auditor's.

Report Narrative / Main Content

Internal Audit Annual Plan 2017/18 (Appendix 1)

- 4.1 The Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan. As this is the first year of WECA's inception there is no audit history or prior risk assessment to rely on and as such the plan attached at Appendix A is indicative only and subject to change as WECA's organisational requirements start to become established.
- 4.2 The first year's Audit Plan will therefore focus on the following main themes –
 - a) Assurance on Core Systems;
 - b) Assurance on Core Governance framework;
 - c) Advice on new systems and processes;
- 4.3 The indicative Plan has been subject to consultation with the Director of Corporate Services (S151 Officer) and WECA's interim strategic management team. The Internal

Audit service (Audit West) use the reasonable assurance model to compile the plan, of which the essential elements are as follows –



- 4.4 As this is the first year a full assessment has not been carried out but the principles of the model have been used in considering topic areas. Notwithstanding the assessment, specific circumstances (such as a significant reputational issue or request of S151 Officer or Senior Management Team may on occasion mean that a low scoring topic is nevertheless included in the Plan.
- 4.5 Resources available to deliver the Plan will also inform the quantum of the Plan which amounts to approximately 80 days in total plus a contingency sum. Broadly the plan attached focuses on the Audit Universe and actual coverage in 2017/18 will focus on priorities within the key themes working closely with the Director of Corporate Services.
- 4.6 In addition to completing the Internal Audit Reviews, Audit West will -
- Provide support to the corporate governance framework within WECA including completing the Annual Governance review work required to publish WECA's Annual Governance Statement;
 - Complete 'Follow-up' reviews to verify the implementation of Internal Audit Review recommendations.
 - Provide support to the Council's risk management framework;
 - Carry out where requested the co-ordination and Investigation roles to complete the work required through any national data matching exercises such as the 'National Fraud Initiative';
 - Provide advice on systems of internal control including WECA policies and procedures. This is particularly important when systems and processes are being developed or changed;
 - Provide support to WECA on carrying out investigations in relation to financial irregularities. This may require Audit West staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures;
 - Provide a service to verify the accuracy of specific grant claims and when required provide assurance to the WECA's Chief Executive or other officers who are required to 'sign-off' Claim Certificates.
- 4.8 The Plan will remain fluid during the year to enable the service to respond to WECA's changing risk environment and the Committee will receive an update on the work undertaken later in the year.

Consultation:

5. Draft Plan was consulted with the WECA Senior Management team and Director of Corporate Services.

Public Sector Equality Duties:

6. No direct implications.

Economic Impact Assessment:

7. No direct implications.

Finance Implications:

8. No direct implications, cost of service is within the existing approved Budget.

Legal Implications:

9. No direct implications

Land/Property Implications;

10. No direct implications.

Human Resources Implications:

11. No direct implications – Audit West are a contracted provider.

Recommendation:

12. To note the report and approve the Internal Audit Plan attached at Appendix 1.

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Background Papers

None.

WEST OF ENGLAND
Combined Authority
BATH & NORTH EAST SOMERSET
BRISTOL
SOUTH GLOUCESTERSHIRE



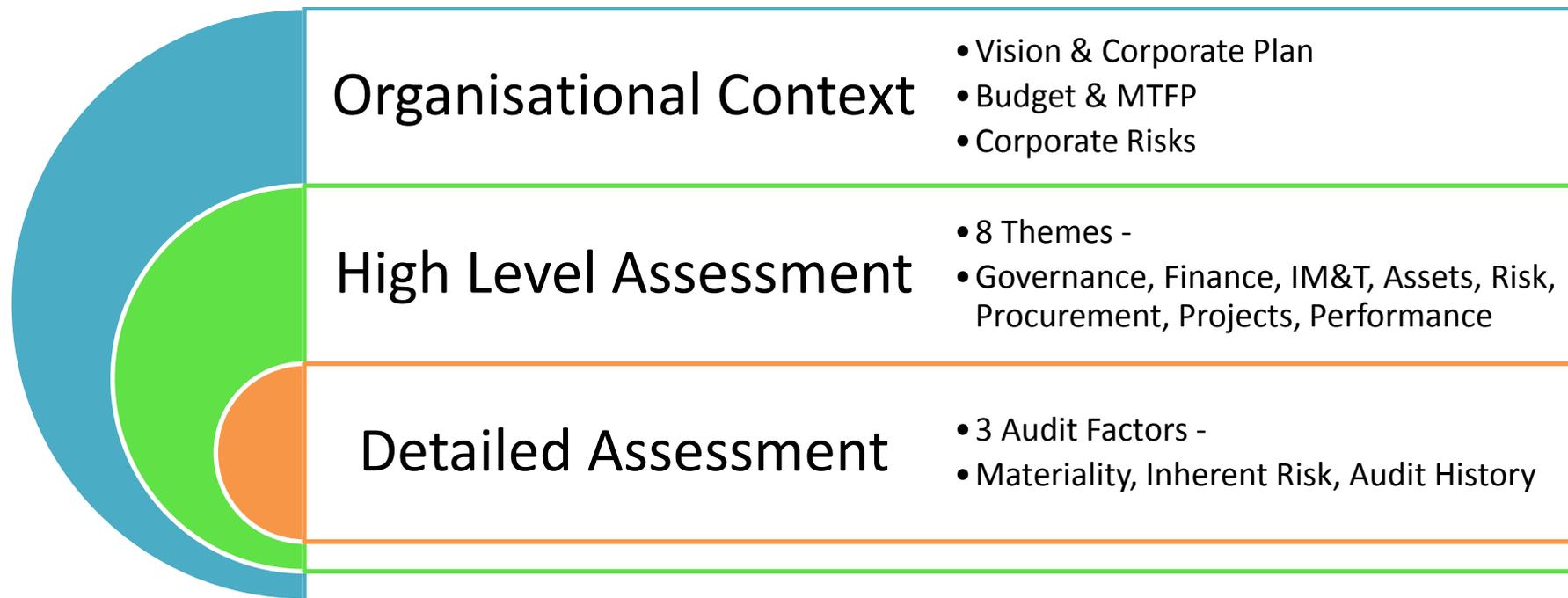
Item 9 Appendix 1 – Internal Audit Plan 2017/18

Delivering Independent Assurance to the Public Sector

Reasonable Assurance Model – Producing the Audit Plan

The model 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.

This involves considering current context of the Authority, what a ‘healthy organisation’ requires to operate effectively and then assessing independently against this in a staged process as follows –



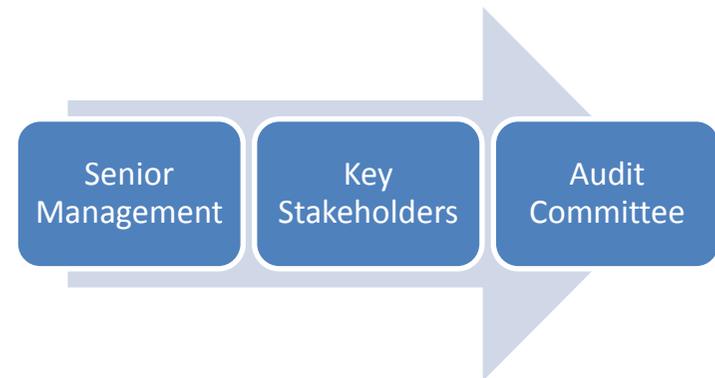
HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE



DETAILED CRITERIA – AUDIT PLAN LISTING



CONSULTATION & APPROVAL



Methodology, Approach & Standards

Introduction:

Internal Audit is an assurance function that provides an independent and objective opinion to WECA on its control environment. Scope of Internal Audit activity is not limited to WECA's financial systems and records, but extends to all functions of WECA.

Internal Audit is required to compile each year a Plan of its intended activity for approval by WECA's Audit Committee.

Internal Audit is required to be compliant with the Public Sector Internal Audit Standards and designs its methodologies to ensure it meets these standards and considers all available best practice.

Independence:

A critical element of the performance of Internal Audit is independence from the activities audited. This enables the function to form impartial and effective judgment for the opinions and recommendations made.

To help ensure independence, Internal Audit is part of a partnership arrangement with staff employed by Bath & North East Somerset Council and so is not fettered by any management reporting line restrictions. It also has unrestricted access to Senior Management & Members, particularly, the Mayor, Chair of the Audit Committee, the Chief Executive, Director of Corporate Services and the Council's Monitoring Officer. Additionally, the Head of Audit West (responsible for the partnership arrangements) reports in his own name and acts as Chief Internal Auditor for WECA.

Internal Audit forms part of the core governance structure of the organisation and its input is required as part of the WECA's Annual Governance review which results in the publication of WECA's Annual Governance Statement.

Relationship with WECA's External Auditor:

As part of their audit of WECA's financial statements, WECA's external auditor has a dedicated plan from which they carry out specific reviews of WECA's activities. To facilitate this work they will issue a plan for the audit of the 2017/18 accounts.

The External Auditors carry out their own risk assessment methodology to assist in agreeing their workplan.

The working relationship between Internal Audit and the External Auditors carrying out their respective functions is important and must take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on WECA's financial statements, whilst the Internal Audit function is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.

The External Auditors whilst not formally required to seek reliance on the work of Internal Audit take into account the outcomes of all audit activity and consider their approach and plans to maximise their effectiveness and there is regular contact between the two parties.

Performance Management

The function recognises the importance of regular and effective performance management to ensure an effective service is being operated. A performance dashboard is produced and reported to each key stakeholders, including the Audit Committee.

Performance Indicators and Measures are set in the following areas –

Completion of the Plan
Audit Recommendations Implemented
Assurance Levels Provided
Productivity
Customer Satisfaction
Numbers of Investigations
Unplanned Work

Preparation of the Annual Plan: Reasonable Assurance Model

Internal Audit has adopted a risk based approach in determining its Annual Plan using the reasonable assurance model.

Stage 1 - Assess levels of Assurance & Risk over 8 key themes

- Corporate Governance
- Financial Management
- Performance Management
- Risk Management
- Asset Management
- Procurement (& Commissioning)
- Programme & Project Management
- Information Management & Technology

Stage 2 – Risk Assessment using 3 key factors

- Materiality
- Inherent Risk
- Audit History

Stage 3 – Consult & Approve the Plan

- Senior Management
- Audit Committee

Unplanned Work

The plan also allows for a contingency for any unplanned work. Unplanned work consists of the investigation of irregularities and prioritised 'consultancy' work. If this contingency number of days is fully utilised and further unplanned work is required it is the intention that planned audit reviews, with the lowest risk rating, will be replaced by the unplanned work activity.

In view of the ever changing environment in which Local Government exists the Plan will be reconsidered at regular intervals to confirm that the remaining work planned is still appropriate. This process will be carried out in consultation with Senior Management and in particular the S151 Officer who acts as the principal client for the function.

Methodology:

Individual Audit Reviews:

At the commencement of each Audit Review, an Audit Brief (**Annex A**) will be prepared and issued to the relevant Head of Service/Director and responsible Manager. This Brief will identify the objectives of the review and areas to be covered. This Brief will be subject to agreement between the client and the auditor.

At the conclusion of each review, an end of review meeting will be held with the client to discuss the matters arising. The Head of Service/Director may be involved at this stage. Wherever possible this meeting will occur before a 'draft' audit report is produced.

Following the conclusion of the audit review work a 'draft' audit report will be issued to Management. The report will provide a graded 'Assurance Level' (see ANNEX B); a summary of identified strengths & weaknesses; and a detailed action plan recording weaknesses and recommendations.

The nominated responsible Manager is required to respond to the audit findings and recommendations and prepare an action implementation plan recording responsible officers and timescale for implementation.

The management comments and implementation plan are compiled into a 'final' version of the report. This is issued to the recipients of the 'draft' version and the Head of Service/Director. It should be noted that the relevant Director and Audit Committee will be informed of the outcome of any work which falls into a level 1 rating.

Audit Review 'Follow-Ups':

Internal Audit reports / recommendations are subject to "follow-up". The objective of this process is to ensure actions are implemented within the agreed timescales.

All recommendations are subject to 'follow-up'. The process is dependent on the risk classification of the weaknesses / recommendations. For all 'Low' and 'Medium' risk recommendations, management are required to confirm implementation of actions. For all 'Critical' and 'High' risk recommendations Internal Audit will carry out testing to confirm implementation.

The findings of Audit Review 'Follow-Up' will be reported to the relevant manager(s) and Head of Service/Director. As stated above the relevant Director will be informed of the outcome of this work where there is a level 1 rating.

Investigation of Fraud & Corruption:

Senior Management have the primary responsibility for the prevention and detection of fraud and other financial irregularities. Internal Audit will however ensure it provides a lead in supporting management in this area, including design of appropriate strategies, policies and levels of control and will be alert in all their work to the possibility of theft, fraud, corruption and bribery.

Members of staff working within WECA are required to report any possible wrongdoing. Internal Audit will provide a professional response to any such reports received. In this respect, attention is drawn to WECA's own Anti-fraud & Corruption and Whistle blowing policies.

Internal Audit will conduct all investigations relating to fraud and corruption and do so according to professional standards, all applicable legislation and internal policies and procedures relating to staff conduct and the disciplinary process.

ANNEX A - AUDIT BRIEF

• Title	{Title}	
• Purpose of Review	To review the risks and internal controls related to the scope of the audit (detailed below) and provide management with an opinion on the adequacy of the framework of internal control.	
• Scope of Review	<p>The audit will review the following key risks/control objectives:</p> <ul style="list-style-type: none"> • Ensure..... • Ensure..... • Ensure..... 	
• Key Stages of Review Process		
• Timeframe	Fieldwork Starts: {Date}	Draft Report: {Date}
• Key Contacts	Lead Auditor: {Name}	Lead Client: {Name}
• Service Charter & Professional Standards	<p>Our customer service charter outlines what you can expect from us and what in turn we need from you to complete this audit.</p> <p>All audit work is reported to and monitored by the Audit Committee. All audit work complies with Public Sector Internal Audit Standards.</p>	

Audit Opinions***Assurance Level 5 (Excellent)***

The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary.

• *Assurance Level 4 (Good)*

The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary.

• *Assurance Level 3 – (Satisfactory)*

The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.

• *Assurance Level 2 – (Weak)*

The systems of internal control are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce risk exposure.

• *Assurance Level 1 – (Poor)*

The systems of internal control are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee.

Contact Details

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DRAFT PLAN/AUDIT UNIVERSE – YEAR 1 (2017/18)

Internal Audit Areas	Reasonable Assurance Theme	Directorate (Lead Service)
Core Financial Systems		
Accounting Ledger	Financial Management	Corporate Services
Creditors	Financial Management	Corporate Services
Debtors	Financial Management	Corporate Services
Payroll	Financial Management	Corporate Services
Reconciliation Processes	Financial Management	Corporate Services
Insurance	Financial Management	Corporate Services
Procurement	Procurement	Corporate Services
Financial Management		
Budget Management (Revenue & Capital)	Financial Management	Corporate Services
Medium Term Financial Planning	Financial Management	Corporate Services
Treasury Management	Financial Management	Corporate Services
Risk Management	Risk Management	Corporate Services
Financial Rules & Regulations	Financial Management	Corporate Services
Counter Fraud Arrangements	Risk Management	Corporate Services
Corporate Governance		
Annual Governance Review (AGS)	Corporate Governance	Corporate Services
Corporate Plan & Performance Management	Performance Management	Corporate Services
Decision Making (Constitution)	Corporate Governance	Corporate Services
Assurance Framework & Schemes of Delegation	Corporate Governance	Corporate Services
Codes of Conduct & Declarations of Interest	Corporate Governance	Corporate Services
Code of Corporate Governance	Corporate Governance	Corporate Services

Internal Audit	Reasonable Assurance Theme	Directorate (Lead Service)
Core IT Systems		
Network Management	IM&T	Corporate Services
Firewalls & Security	IM&T	Corporate Services
Back-Ups & Resilience	IM&T	Corporate Services
Business Critical IT Systems	IM&T	Corporate Services
Accountable Body Functions		
Concessionary Travel Scheme	Risk & Performance Management	TBC
Key Routes Network	Asset, Risk & Performance Management	TBC
Adult Education	Risk & Performance Management	TBC
Infrastructure Schemes & Projects	Programme Management, Asset Management, Risk Management, Performance Management	TBC
WOE Office (Accountable Body Status from B&NES)		
Regional Infrastructure Fund	Financial Management	Corporate Services
Economic Growth Fund	Financial Management	Corporate Services
Governance (City Deal links)	Corporate Governance	Corporate Services