



Appendix 1 – Internal Audit Plan 2018/19

Delivering Independent Assurance to the Public Sector

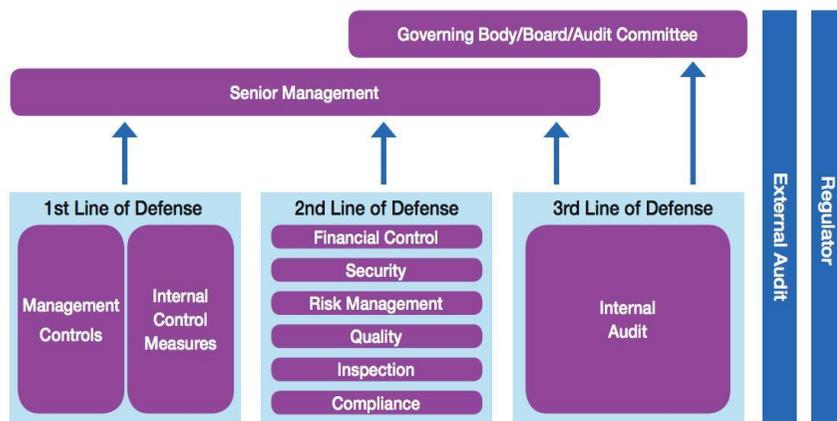
1. Our Role

Introduction

The West of England Combined Authority is striving to be a beacon of growth and innovation where everyone has an opportunity to reach their potential and where prosperity delivers for everybody. The Authority has also recognised through its first year the importance of excellence in resource management and sound governance as fundamental to achieving its priorities and is putting those key building blocks in place.

Audit West fully recognizes its need to be flexible and agile in the face of the significant changes affecting the whole of the public sector and meet the needs of its stakeholders. Independent assurance which is strong but supportive can provide a helpful and positive role not just to services but to elected Members and the Community at large by demonstrating that the Authority is operating effectively and protecting its assets and resources for the benefit of all its stakeholders.

Three Lines of Defence Model



By being independent of management Audit West maintain the third line of defence and we continue to do this effectively by working with all our stakeholders - especially the Audit Committee, Statutory Officers and Senior Management – to improve the service we offer but also to provide an independent voice in supporting service change and transformation.

We also aim to offer continued value to all our clients based on the following key priorities –

- **Use of our Reasonable Assurance Model**
- **Maximising Use of Technology**
- **Investment in Skills**
- **Offering complimentary assurance services**
- **Providing Value for Money**

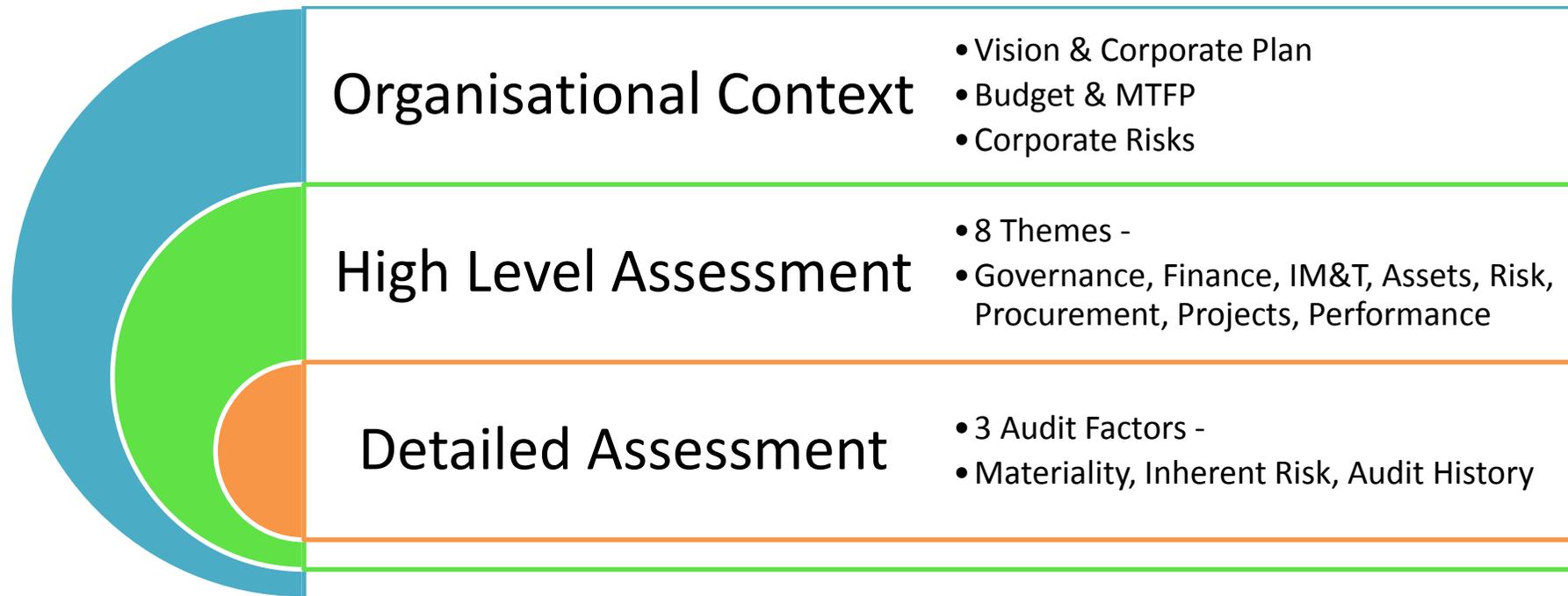
The remainder of this document outlines our approach and also the indicative areas for our audit and assurance plan for 2018/19.



2. 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 –



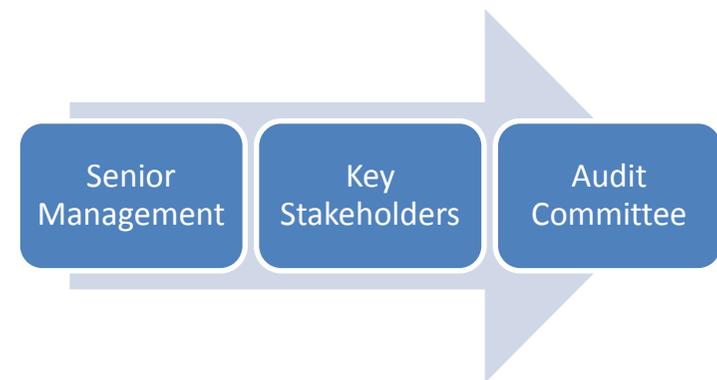
HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE



DETAILED CRITERIA – AUDIT PLAN LISTING



CONSULTATION & APPROVAL



Results of our Reasonable Assurance Model Risk Assessment –

| | | | | | | |
|----------------------|------|--------------------------------------|---------------------------|---------------------------|---------------------|-----|
| LEVEL OF RISK | HIGH | | | | | |
| | | CORPORATE GOVERNANCE | FINANCIAL MANAGEMENT | | | |
| | | PROGRAMME & PROJECT MANAGEMENT | | PERFORMANCE MANAGEMENT | RISK MANAGEMENT | |
| | | | INFORMATION MANAGEMENT | PROCUREMENT | | |
| | LOW | | | | ASSET MANAGEMENT | |
| | | HIGH | LEVEL OF ASSURANCE | | | LOW |

3 Areas for Review – 2018/19

| Internal Audit Areas | Reasonable Assurance Theme |
|---|-------------------------------------|
| Core Systems | |
| Accounting Ledger – Control A/C Reconciliation | Financial Management |
| Bank Account Reconciliation | Financial Management |
| Financial Management | |
| Risk Management | Risk Management |
| Counter Fraud Arrangements | Risk Management |
| Corporate Governance | |
| Annual Governance Review (AGS) | Corporate Governance |
| Reasonable Assurance Model – Corporate Governance | Corporate Governance |
| Reasonable Assurance Model – Financial Management | Financial Management |
| Reasonable Assurance Model – Performance Management | Performance Management |
| Reasonable Assurance Model – Risk Management | Risk Management |
| Reasonable Assurance Model – Programme & Project Management | Programme & Project Management |
| Reasonable Assurance Model – Procurement | Procurement |
| Reasonable Assurance Model – Information Management | Information Management & Technology |
| Reasonable Assurance Model – Asset Management | Asset Management |
| Accountable Body Functions | |
| Adult Education | Risk & Performance Management |
| Future Bright | Risk & Performance Management |
| WOE Office (Accountable Body Status) | |
| Grant Funding (i.e. Local Growth Fund) | Financial Management |
| Follow-Up Reviews | Corporate Governance |

4 Methodology, Approach & Standards

Introduction:

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

Internal Audit is required to compile each year a Plan of its intended activity for approval by the Audit Committee and to be compliant with the Public Sector Internal Audit Standards and designs its methodologies to ensure it meets these standards.

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 delivered through a contractual arrangement with 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, Directors, the Council's s151 Officer and Monitoring Officer. Additionally, the Head of Audit West reports in his own name and acts as Chief Audit Executive for the Combined Authority.

Relationship with the Authority's External Auditor:

As part of their audit of the financial statements, the external auditor has a dedicated plan from which they carry out specific reviews of the Authority's activities. The External Auditors carry out their own risk assessment methodology to assist in agreeing their work plan.

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 the 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 therefore regular contact between them.

Performance Management

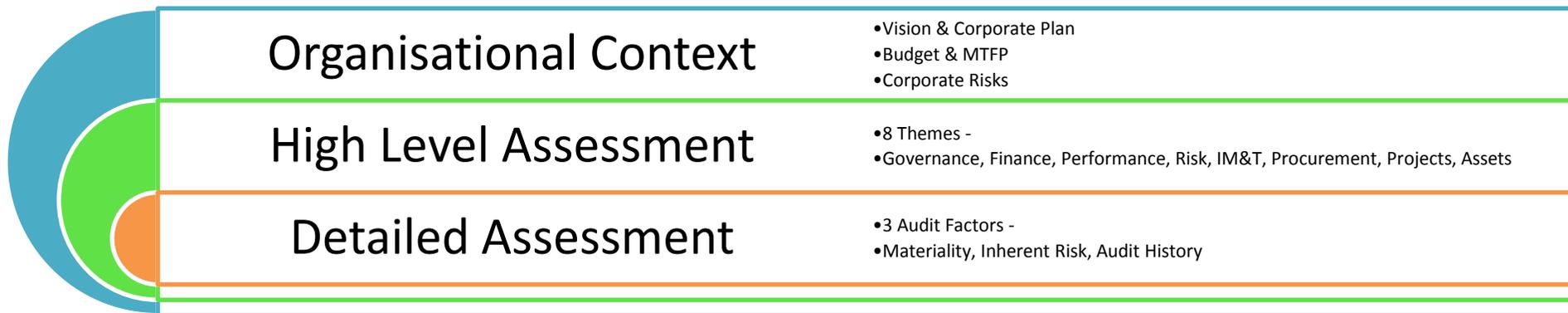
The function recognises the importance of regular and effective performance management to ensure an effective service is being operated. A performance dashboard is produced and reported as necessary to each of the key stakeholders.

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.



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.

At the conclusion of each review, an end of review meeting will be held with the Client to discuss the matters arising. 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 & 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. The relevant Director, Chief Executive and the Audit Committee will be informed of the outcome of any work which receives a level 1 rating.

Audit Review 'Follow-Ups':

Internal Audit recommendations are subject to "follow-up" to ensure actions are implemented within the agreed timescales. The process is dependent on the risk classification and for all 'High' risk recommendations Internal Audit will carry out testing to confirm implementation and report its back to the Client. Where an area has a level 1 rating this may be reported to the Audit Committee.

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.

Professional Standards

All Internal Audit functions are required to comply the professional standards set out by the Chartered Institute of Internal Auditors and endorsed by CIPFA. Evidence of this compliance is through a formal external assessment every 5 years and annual self-assessments.

Audit West received a formal external self-assessment in March 2018 and it was confirmed that it was confirming with the standards. Updates will be provided to the Audit Committee of areas for improvement on an annual basis.

AUDIT BRIEF

| | | |
|---|--|------------------------------------|
| <ul style="list-style-type: none"> • Title | <p>{Title}</p> | |
| <ul style="list-style-type: none"> • Purpose of Review | <p>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.</p> | |
| <ul style="list-style-type: none"> • Scope of Review | <p>The audit will review the following key risks/control objectives:</p> <ul style="list-style-type: none"> • Ensure..... • Ensure..... • Ensure..... | |
| <ul style="list-style-type: none"> • Key Stages of Review Process | | |
| <ul style="list-style-type: none"> • Timeframe | <p>Fieldwork Starts: {Date}</p> | <p>Draft Report: {Date}</p> |
| <ul style="list-style-type: none"> • Key Contacts | <p>Lead Auditor: {Name}</p> | <p>Lead Client: {Name}</p> |
| <ul style="list-style-type: none"> • 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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